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DAN E ARNETT  
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GENERAL COUNSEL

January 6, 2005

Mr. Charles L.A. Terreni  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Center Dr., Suite 100  
Columbia, SC 29210

Re: Application of Bush River Utilities, Inc. for an approval of New Schedule of Rates and Charges for Sewage Service provided Residential and Commercial customers in all areas served.  
PSC Docket No.: 2004-259-S

Dear Charles:

Enclosed for filing please find twenty-six copies of direct testimony for the following Office of Regulatory Staff witnesses: Dawn Hipp, Willie Morgan, and Roy Barnette. Please date stamp the extra copy enclosed and return it to me via person delivery same.

Please let me know if you have any questions.

Sincerely,

Benjamin P. Mustian

BM/cc  
Enclosures

cc: Charles Cook, Esquire

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF SOUTH CAROLINA**  
**DOCKET NO. 2004-259-S**

RECORDED  
2005 JAN -6 PM 3:44  
SOUTH CAROLINA  
PUBLIC SERVICE COMMISSION

IN RE: Application of BUSH RIVER )  
UTILITIES, INC. for Approval of )  
New Schedule of Rates and Charges )  
For Sewage Service Provided to )  
Residential, Commercial and )  
Wholesale Customers in all areas )  
Served. )

**CERTIFICATE OF SERVICE**

This is to certify that I, Cindy Clary, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the Direct Testimony and Exhibits of: Dawn M. Hipp, Willie J. Morgan, and Roy Barnette in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Charles Cook, Esquire  
**Elliott & Elliott, P.A.**  
721 Olive Street  
Columbia, South Carolina 29205

  
Cindy Clary

January 6, 2005  
Columbia, South Carolina

172428

**THE OFFICE OF REGULATORY STAFF**  
**DIRECT TESTIMONY AND EXHIBITS**  
**OF**  
**DAWN M. HIPPI**



RECEIVED  
2005 JAN -6 PM 4:46  
CO. REGULATORY STAFF  
COMMUNICATIONS

RETURN DATE: MC DJ  
SERVICE: OK DJ

**DOCKET NO. 2004-259-S**  
**BUSH RIVER UTILITIES, INC.**  
**APPLICATION FOR RATE INCREASE**  
**TEST YEAR ENDED DECEMBER 31, 2003**

**TESTIMONY OF DAWN M. HIPPI****FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2004-259-S****IN RE: BUSH RIVER UTILITIES, INC.**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Dawn M. Hipp. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Project Specialist in the Water/Wastewater Department for the Office of Regulatory Staff ("ORS").

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I am a 1992 graduate of Moorhead State University where I earned a B.S. in Political Science.

I have over eight years of experience in hazardous waste regulation. From 1996 to 1999, I worked for Laidlaw Environment Services in Saukville, Wisconsin, as an accounts receivable supervisor and then as a facility accounting supervisor for Laidlaw's Government Services Division. In this role, I facilitated electronic

1 commerce including EDI transfer of order and EFT payments with customers. I  
2 also developed, implemented, and enhanced government billing and waste  
3 tracking systems. From 1999-2003, I worked for Safety-Kleen Corporation and  
4 Clean Harbors Environmental Services, Inc. in Columbia, SC as an operations  
5 manager in the Government Services Division. In this role, I managed the  
6 financial, operations and all regulatory aspects of field offices nationwide serving  
7 Department of Defense hazardous waste removal contracts. I was accountable for  
8 the viability of 14 government contracts yielding \$12 million in revenue annually.  
9 In September, 2004, I joined ORS as the Program Specialist for Water and  
10 Wastewater Department.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
12 **PROCEEDING?**

13 A. The purpose of my testimony is to set forth the ORS staff findings and  
14 recommendations on the amount of additional operating revenues that would  
15 result from the implementation of the schedules of rates and charges proposed by  
16 Bush River Utilities, Inc. ("BRUI"). Specifically, I will focus on BRUI's accounts  
17 receivable/collections practices, business structure, and financial assurance  
18 requirements.

19 **Q. ARE THE FINDINGS OF YOUR REVIEW CONTAINED IN THIS**  
20 **TESTIMONY AND ACCOMPANYING EXHIBITS?**

21 A. Yes, my testimony and the attached exhibits detail my findings and  
22 recommendations.

1   **Q.   PLEASE EXPLAIN HOW YOU COMPILED INFORMATION FOR YOUR**  
2       **TESTIMONY AND EXHIBITS.**

3   **A.   I used ORS audit results, information provided by BRUI in its Application and**  
4       **Data Request response and information on file with the Public Service**  
5       **Commission. Using this information, I determined the amount of additional**  
6       **operating revenues which will be produced by BRUI's proposed rates. I also**  
7       **reviewed audited financial statements and Public Service Commission approved**  
8       **performance bond documents.**

9   **Q.   PLEASE EXPLAIN EXHIBIT DMH-1 OF YOUR REPORT.**

10   Exhibit DMH-1 is a brief schematic summarizing the relationship of the three  
11   wastewater utility companies that are jointly owned by Mr. Keith Parnell and Mr.  
12   Charles K. Parnell. The companies are Development Service, Inc. ("DSI"), BRUI,  
13   and Midlands Utility, Inc. ("MUI"). BRUI collects wastewater from 34  
14   commercial customers and one wholesale customer, DSI. This wastewater is  
15   treated at BRUI's biological treatment system and discharged into the lower  
16   Saluda River. DSI collects wastewater from its customers and discharges this  
17   wastewater to the BRUI wastewater treatment facility ("WWTF"). BRUI is  
18   authorized by the Commission under Order No. 96-44 to charge DSI for treatment  
19   services. DSI, in turn, charges its customers for wastewater collection.

20   While MUI is not physically connected to DSI or to BRUI, all three companies  
21   share common ownership, purpose, staffing and inter-company utilization of  
22   assets, expenses and equipment. A merger of the three companies into one

1 company could produce cost savings and provide efficiencies of scale to benefit  
2 the customer.

3 **Q. PLEASE EXPLAIN EXHIBIT DMH-2 OF YOUR REPORT.**

4 A. Exhibit DMH-2, pages 1 through 3, sets forth a summary of the services provided  
5 by BRUI and the Business Office Compliance Review completed by ORS. The  
6 Business Office Compliance Review consists of a review of BRUI's office  
7 records to determine compliance with Commission rules and regulations. This  
8 review showed BRUI currently provides adequate wastewater collection and  
9 treatment service to its customers.

10 The Business Office Compliance Review revealed the following deficiencies:

- 11 1. No complaint records are available as required pursuant to 26 S.C. Code Regs.  
12 103-538. Specifically, BRUI did not maintain detailed information to afford  
13 analysis of the utility's procedures, actions and resolutions to specific  
14 customer complaints as required by 26 S.C. Code Regs. 103-538 and 103-516.
- 15 2. The bill form lacks an after-hours emergency number as required by 26 S.C.  
16 Code Regs. 103-532.1(e).
- 17 3. The bill forms do not identify the rate schedule or a statement to the effect that  
18 the applicable rate schedule will be furnished on request as required by 26  
19 S.C. Code Regs. 103-532.1(d).
- 20 4. BRUI does not have a completed Authorized Utility Representative form on  
21 file with the PSC as required by 26 S.C. Code Regs 103-512.2.5.
- 22 5. The bond amount is insufficient pursuant to 26 S.C. Code Regs. 103-512.3.1.

1           6. The individual surety is incomplete and insufficient pursuant to 26 S.C. Code  
2           Regs. 103-512.3.3.

3   **Q.   PLEASE EXPLAIN EXHIBIT DMH-3 OF YOUR REPORT.**

4   A.   Exhibit DMH-3, summarizes BRUI's revenues for the test year. I used a bill  
5       frequency analysis to review BRUI's billing data. The bill frequency analysis  
6       utilizes the total number of invoices issued during the test year multiplied by the  
7       average billing amount per monthly customer invoice. This provides a  
8       comparison between what should have been billed and what was actually  
9       recorded as revenue. According to the bill frequency analysis, BRUI is under-  
10      collecting revenues by 6.70%. After reviewing the customer accounts for the test  
11      year, I attribute the under collections to late fees waived by BRUI and non-  
12      collection on the past due balances of its commercial customer accounts including  
13      its wholesale customer account, DSI, as illustrated in Exhibit DMH-4. This  
14      Exhibit was provided by BRUI and further illustrates that BRUI hand-writes  
15      account information. Waiving of late fees does not comply with 26 S.C. Code  
16      Regs. 103-503. This regulation provides in subpart (D) that "[e]ach customer  
17      within a given classification ... shall be charged the same approved rate ... as  
18      every other customer within that classification, unless reasonable justification is  
19      shown for the use of a different rate, and a contract or tariff setting for[th] the  
20      different rate has been filed and approved by the Commission through the  
21      issuance of an order or directive." (Emphasis added.) ORS's review showed  
22      BRUI does not charge DSI late fees as it does its commercial customers.  
23      Acceptable business practice dictates that a company collect all payments due for



1 services rendered. This practice is not being followed with DSI. Further, using  
2 BRUI customer billing cards, I noted that DSI began the test year on January 21,  
3 2003 with an account balance of \$10,655.06 in arrears. DSI closed the test year  
4 owing BRUI \$35,523.15 for treatment costs. Further, on November 30, 2004,  
5 DSI's account was in arrears \$61,277.11.

6 In addition, commercial customer accounts were delinquent up to 4 months with  
7 little to no penalty assessed or collected (Exhibit DMH-5, pages 1 through 3).  
8 These practices raise serious questions concerning BRUI's operations and  
9 management. Further, these practices demonstrate a pattern of failure of BRUI to  
10 comply with the Commission's regulations.

11 Based on my review, I recommend the development and implementation of a  
12 written business plan for BRUI. This business plan should include: 1) an  
13 implementation plan to effectuate the merger of all three entities under one  
14 company in order to provide for cost savings and efficiencies of scale; 2)  
15 formulation of a facilities plan to address current and future plant needs while  
16 maintaining proper depreciation practices; 3) identification of a managerial plan  
17 to address information technology upgrades and business practice improvements;  
18 4) development of operations and maintenance procedures to ensure regulatory  
19 compliance; and 5) preparation of a financial plan to provide short/long-term  
20 budgeting, renewal/replacement schedules, and capital improvements.

21 While a rate increase could assist BRUI in attracting necessary capital for the  
22 upgrade of their current WWTF, an implemented business plan could assist BRUI  
23 with maintaining proper finances within the organization.

1   **Q.   PLEASE EXPLAIN EXHIBIT DMH-6 OF YOUR REPORT.**

2   A.   Exhibit DMH-6, page 1, provides an overview of BRUI's bonding structure. The  
3       purpose of a wastewater utility's performance bond is to provide sufficient  
4       financial assurance to both the customer and the Commission in the event that the  
5       utility fails to provide safe and adequate service. The performance bond amount  
6       should be of a level to support all expenses of that utility for a period of time.  
7       Pursuant to 26 S.C. Code Regs. 103-512.3.1, "the amount of bond shall be based  
8       on, but not limited to, the total amount of the following categories of expenses for  
9       twelve months: Operation and Maintenance Expenses, General and  
10      Administrative Expenses, Taxes Other Than Income Taxes, Income Taxes, and  
11      Debt Service including Interest Expenses." The bond amount is also set forth in  
12      S.C. Code Ann. Section 58-5-720 (Supp. 2003). The Commission's statutes and  
13      regulations state bond amounts must range from an amount not less than \$100,000  
14      and not more than \$350,000. In lieu of a commercial bond or the posting of a  
15      certificate of deposit, an individual surety may stand the bond upon meeting the  
16      requirements that the individual's net worth, including the financial assurances, is  
17      twice the face amount of the bond, pursuant to 26. S.C. Code Regs. 103-512-3.2  
18      (Exhibit DMH-7).

19      BRUI has a current performance bond in the form of an individual surety on file  
20      and approved by PSC staff in the amount of \$10,000 (Exhibit DMH-8). Mr.  
21      Keith Parnell filed a personal financial statement as surety dated 11/10/04  
22      indicating assets and salary totaling of \$234,000. This statement listed, as part of  
23      the assets, a house in the name of Mary Parnell. Further, the statement does not

1 indicate, nor does the PSC have on file authorization from Ms. Parnell for this  
2 property to be pledged. Mr. Parnell also did not indicate any liabilities or net  
3 worth on the filed financial statement. Mr. Parnell has also filed personal financial  
4 statements for his other companies, DSI and MUI. The same assets and salary  
5 which are pledged on the bond for BRUI are also pledged on the bonds for these  
6 other companies.

7 Upon reviewing the expenses from the test year and using the criteria set forth in  
8 26 S.C. Code Regs. 103-512.3.1, I determined that the face amount of BRUI's  
9 bond based on the expenses from the test year should be \$249,604.00 (Exhibit  
10 DMH-6). However, it should be noted that rising operating expenses could cause  
11 the face amount of the bond to increase as future bonding amounts will be  
12 dependant upon applicable expense levels. It is also my determination from  
13 Commission regulations that in order for Mr. Parnell to pledge the same assets  
14 and salaries on three different bonds, the financial statement on file with the  
15 Commission must document net worth equal to twice the face value of each bond,  
16 or stated another way, the financial statement must show a net worth of twice the  
17 aggregate amount of all three bonds.

18 I have determined this individual surety standing on the bond for BRUI is  
19 insufficient to provide adequate financial assurance in compliance with the  
20 Commission's statutes and regulations for the following reasons: 1) the amount of  
21 the individual surety does not comply with the requirement of 26 S.C. Code Regs.  
22 103-512.3.2; 2) the individual surety does not accurately depict Mr. Parnell's net  
23 worth as required by 26 S.C. Code Regs. 103-512.3.2 and 103-512.3.3; 3) the real

1 estate as indicated on Mr. Parnell's current financial statement is in the name of  
2 Mary Parnell, there is no document in the bond file indicating permission to  
3 pledge this asset as part of the surety, and there is no evidence of an appraised  
4 value for this property; and 4) this real estate owned by Mary Parnell is also  
5 included as an asset on the DSI and MUI surety.

6 It should be recognized that a merger of the three separate companies into one  
7 company would reduce the bonding costs significantly as the face amount of the  
8 bond for the one company would cap at \$350,000.00 according to the  
9 requirements of S.C. Code Ann. Section 58-5-720.

10 **Q. PLEASE EXPLAIN EXHIBIT DMH-9 OF YOUR REPORT.**

11 A. Exhibit DMH-9, consisting of 19 pages, is a copy of the loan agreement for  
12 upgrading facilities owned by Mr. Keith Parnell and Mr. Charles K. Parnell to  
13 meet environmental requirements as required by the various permits issued to  
14 BRUI and MUI. The construction work for the replacement treatment facility at  
15 BRUI is projected to cost approximately \$932,000. The remaining portion of the  
16 \$2,021,400 loan is for proposed construction activities at the MUI facilities as  
17 well as the administrative costs associated with the entire loan agreement. (No  
18 upgrade to the DSI facility is being proposed.) The loan commitment letter  
19 identifies BRUI as a borrower obligated for loan repayment.

20 In a prior Order, the Commission encouraged DSI, BRUI and MUI to review and  
21 explore the possibilities of merging into one company. See Commission Order  
22 No. 96-44 (January 19, 1996), Docket No. 94-727-S – Application of  
23 Development Service, Inc. for Approval of an Increase in Rates and Charges for

1 Sewer Service and Docket No. 94-728-S – Application of Bush River Utilities,  
2 Inc. for Approval of an Increase in Rates and Charges for Sewer Service. BRUI in  
3 its current application for a rate increase, Docket 2004-259-S submits that the  
4 long term business plan of its owners is to effect a merger of all assets and  
5 liabilities of the three corporations into one corporation. To date, ORS has not  
6 received any information that a merger has taken place or any information about  
7 the initiation of a merger between the three companies. ORS strongly  
8 recommends that the three companies merge to form one company. Operations  
9 are not being conducted as three separate utilities, and it appears that these  
10 utilities by maintaining separate entities could potentially cause increased costs to  
11 the customers.

12 **Q. PLEASE EXPLAIN EXHIBIT DMH-10 OF YOUR REPORT**

13 A. Exhibit DMH-10, pages 1 through 3, is a summary of the current PSC approved  
14 rates for BRUI and BRUI's proposed rates. In its Application, BRUI proposed a  
15 phased increase in its monthly sewer rates for all customer classes due to the  
16 planned facilities upgrade approved by DHEC.  
17 BRUI also requested to increase its customer tap fees by approximately 300% but  
18 failed to provide proper cost justification for the proposed increase in its  
19 Application. Pursuant to 26 S.C. Code Regs 103-502.11, an application for an  
20 increase of tap fees must include an exhibit setting forth all cost criteria justifying  
21 the tap fee. Under the Commission's regulations, proper cost justification includes  
22 labor costs, material costs and miscellaneous costs as required by 26 S.C. Code  
23 Regs. 103-512.4.A.9. While this justification, or information, was not provided in

1 response to ORS's data requests, BRUI did provide some information on the  
2 \$1,166 tap fee multiplier. Though the response did not include the information  
3 required by Commission regulations, the information provided by BRUI indicates  
4 the apparent function of the tap fee is to recapture plant investment based on the  
5 proposed BRUI facility upgrade.

6 Other information supplied in BRUI's data request responses indicates the main  
7 cost component of tap fees is officer salary; however, no detailed explanation is  
8 provided. Payment of officer salaries does not constitute proper cost justification  
9 for tap fees.

10 The requested tap fee increase is unnecessary at this time for two reasons: 1) the  
11 BRUI facility upgrade which produced the \$1,166.00 multiplier is not complete,  
12 and final construction costs are not known and measurable; and 2) the cost  
13 justification required by 26 S.C. Code Regs 103-502.11 and 103-512.4.A.9 was  
14 not supplied by BRUI.

15 **Q. PLEASE EXPLAIN EXHIBIT DMH-11 OF YOUR REPORT.**

16 A. Exhibit DMH-11 page 1 through 2, summarizes the effect of the proposed rates  
17 and charges on a BRUI customer's monthly sewer bill. I used the proposed rates  
18 based on BRUI's Phase I rate structure. I did not consider BRUI's "After  
19 Construction" proposed rates as known and measurable at this time because the  
20 facility construction on the new system has not started. By weighted average, I  
21 have calculated that customer rates will increase 28.14% as a result of BRUI's  
22 Phase I proposed rates.

23 **Q. PLEASE EXPLAIN EXHIBIT DMH-12 OF YOUR REPORT.**

1 A. Exhibit DMH-12 provides a summary of alternate rates produced by a selected  
2 range of operating margins. The Audit Department calculated the revenue  
3 requirement for the alternate operating margins. The Water/Wastewater  
4 Department calculated the alternate rates that would produce the revenue  
5 requirement. Using ORS' proposed adjustments, BRUI currently has a 0.83%  
6 Operating Margin. The range of Operating Margins for Exhibit DMH-11 is  
7 11.00%, 15.00%, 20.00% and 22.65%. The resulting operating margin after  
8 adjustments is 22.65%. I recommend that BRUI review the final construction  
9 cost impact on operating margin upon completion of the upgrades and file an  
10 applicable request for rate increase at that time or at the time BRUI may be  
11 allowed to file for another rate increase by statute.

12 **Q. DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS?**

13 A. In addition to my previous recommendations, I would recommend that BRUI  
14 maintain its books and records for sewer operations in accordance with the NARUC  
15 Uniform System of Accounts for Class B Water and Sewer Utilities. In previous  
16 rate cases, the Commission ordered BRUI to maintain its books and records in  
17 accordance with the NARUC Uniform System of Accounts. Furthermore, 26 S.C.  
18 Code Regs. 103-517 requires sewer utilities to maintain their books and records in  
19 accordance with the NARUC System of Accounts. BRUI maintains their 35  
20 customers' invoice history on individual hand-written billing cards which provide  
21 limited transaction detail. By utilizing the NARUC accounting system, BRUI  
22 would improve its service, reliability and record-keeping.

23 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

1 A. Yes it does.

2



**DIRECT EXHIBITS**

**OF**

**DAWN M. HIPPI**

**DOCKET NO. 2004-259-S  
BUSH RIVER UTILITIES, INC.  
APPLICATION FOR RATE INCREASE  
TEST YEAR ENDED DECEMBER 31, 2003**

**REPORT OF THE WATER/WASTEWATER DEPARTMENT**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2004-259-S**

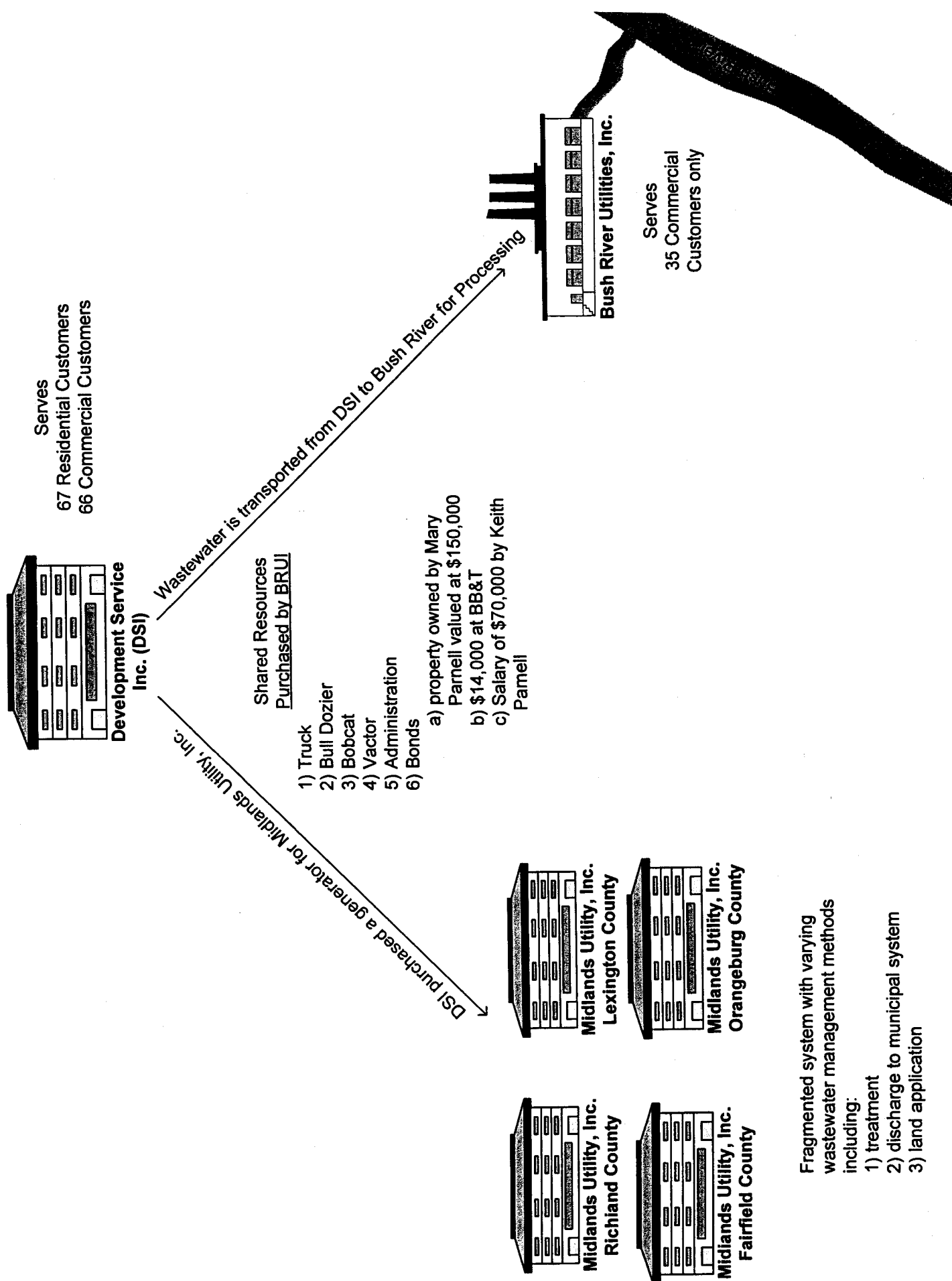
**BUSH RIVER UTILITIES, INC.**

**DAWN M. HIPPIE TESTIMONY**

**EXHIBIT INDEX**

<b><u>EXHIBIT NO.</u></b>	<b><u>EXHIBIT TYPE</u></b>	<b><u>PREPARED BY</u></b>
DMH-1	Company Overview	ORS
DMH-2	Business Review	ORS
DMH-3	Bill Frequency Analysis	ORS
DMH-4	Accounts Receivable Detail	Bush River Utilities, Inc.
DMH-5	Accounts Receivable Detail	Bush River Utilities, Inc.
DMH-6	Performance Bond Requirement	ORS
DMH-7	Statute/Regulation Reference	ORS
DMH-8	BRUI Performance Bond	Bush River Utilities, Inc.
DMH-9	Loan Agreement	Bush River Utilities, Inc.
DMH-10	Existing/Proposed Rates	Bush River Utilities, Inc.
DMH-11	Impact of Proposed Rates	ORS
DMH-12	Alternate Operating Margin	ORS

# Overview of Company Relationships



**WASTEWATER REVIEW OF SERVICE  
PROVIDED BY BUSH RIVER UTILITIES, INC.**

On November 17, 2004 through November 23, 2004, personnel from the Office of Regulatory Staff (ORS) of South Carolina performed an audit of Bush River Utilities, Inc. (BRUI) books and operations in preparation for this rate case. BRUI currently operates a wastewater treatment (WWTF) facility located in Richland County, SC. In addition, it has sewer collection customers in Lexington and Richland Counties. BRUI services 34 commercial customers and one wholesale customer, Development Service, Inc.

The ORS Consumer Services Department has not received any complaints or rate inquiries regarding BRUI during the test year or 2004. Since the Notice of Filing was mailed to BRUI's customers, the Public Service Commission has not received any Petitions to Intervene or letters of protest. BRUI does not have any written procedures concerning management practices and customer service. There are no written procedures on management of delinquent customer accounts. Commercial customers BR21, BR34 and BR39 are routinely delinquent on invoice payments.

The Company provides adequate wastewater service, but there are problems with their management.



## BUSINESS OFFICE COMPLIANCE REVIEW

Utility: Bush River Utilities, Inc.  
 Inspector: Willie Morgan/Dawn Hipp - Office of Regulatory Staff  
 Office: Bush River Utilities, Inc., 816 E. Main St. Lexington, SC 29072  
 Utility Type: Wastewater  
 Date: 11/18/04  
 Company Representative: Gail Oliver/Keith Parnell

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
1	All records and reports available for examination in accordance with Rule R.103-510.	X		
2	Complaint records maintained in accordance with R.103-516		X	Complaint records lack final complaint resolution information (103-516). Complaint records are informal. Recommend written procedure and establishment of complaint log.
3	Utility's rates, its rules and regulations, and its up-to-date maps and plans available for public inspection in accordance with R.103-530.	X		
4	Established procedures to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the South Carolina Public Service Commission and that the customer has the right to register the complaint in accordance with R.103-530.	X		Company provides all new customers with a copy of the Consumer Bill or Rights. Company informs current customers verbally. Recommend posting R.103-530 information near customer service area in office.
5	Deposits charged within the limits established by Rule R.103-531.	X		All deposit and set-up charges are documented on the Customer Account billing card.
6	Timely and accurate bills being rendered to customers in accordance with Rule R.103-532.	X		Customer billing mailed the 25 <sup>th</sup> of each month.
7	Bill forms in accordance with R.103-532?		X	Bill form lacks after-hours emergency number (103-532.1.e). Bill form lacks reference to rate schedule (103-532.1.d).
8	Adjustments of bills handled in accordance with R.103-533	X		Waiver of late fees and reductions in past due balance not documented well. Does not comply with R.103-503.D.

**BUSINESS OFFICE COMPLIANCE REVIEW**

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
9	Policy for customer denial or discontinuance of service in accordance with R.103-535.	X		Recommend Company create/maintain a written procedure for R.103-535.
10	Notices sent to customers prior to termination in accordance with Rule R.103-535.	X		Recommend Company terminates service of delinquent customers pursuant to R. 103-535.
11	Notices filed with the Commission of any violation of PSC or DHEC rules which affect service provided to its customers in accordance with rule R.103-514-C.	X		
12	Utility has adequate means (telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in case of emergency or unscheduled interruptions or service in accordance with R.103-530.		X	After-hours emergency number must be on billing form.
13	Records maintained of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with Rule R.103-514.	X		
14	Utility advised the Commission, in accordance with R.103-512 of the name, title, address and telephone number of the person who should be contacted in connection with general management duties, customer relations, engineering operations, emergencies during non-office hours.		X	
15	Company verified the maps on file with the Commission include all the service area of the company.	X		Verification on Application. ORS reviews of maps indicate service area is indicated.
16	Number of customers the company has at present time.			35
17	Company has a current performance bond on file with the Commission. Amount of bond: \$10,000.00		X	Bond amount is insufficient pursuant to R. 103-512.3.1. Individual Surety is incomplete pursuant to R.103-512.3.3

<u>Total billings during test year</u>	<u>Total Monthly Billing Amt</u>	<u>Base Charge/Mo.</u>	<u>Calculated Revenues</u>	<u>Reported Revenues</u>	<u>Difference</u>	<u>%</u>
368	\$23,658.52	\$64.29	\$283,902.24	\$266,084.00	\$17,818.24	6.70%

[illegible]



BR 13

Dev Serv Inc

Date	Description	Debit	Credit	Balance
8-31-03	bal fwd			29567.03
2-15-03	#1402		9000.00	20567.03
3-30-03		15114.03		35681.06
6-6-03	#1412		8500.00	27181.06
10-21-03	#1424		16000.00	11181.06
10-31-03		15114.03		26295.09
1-19-03	#1440		14000.00	12295.09
11-30-03		15114.03		27809.12
12-31-03		15114.03		42523.15
2-23-03	#1562		7000.00	35523.15
1-13-04	#1575		2700.00	28023.15
1-20-04	#1582		7000.00	21023.15
1-31-04		15114.03		36137.18
2-18-04	#1598		10000.00	26137.18
2-29-04		15114.03		41251.21
3-12-04	#1617		12000.00	29251.21
3-31-04		15114.03		44365.03
4-16-04	#		10,000.00	34365.03
4-30-04		15114.03		49479.06
5-11-04	#1651		8000.00	41479.06
5-17-04	#1663		10,000.00	31479.06
5-31-04		15114.03		46593.03
6-21-04	#1682		10,000.00	36593.03
6-30-04		15114.03		51707.06
7-19-04	#1699		15000.00	36707.06
7-31-04		15114.03		51821.03
8-16-04	#1715		12000.00	39821.03
8-31-04		15114.03		54935.02
9-20-04	#1743		16000.00	38935.02
9-30-04		15114.03		54049.05

BR 13

Dev Serv Inc

Date	Description	Debit	Credit	Balance
8-2-12	bal fwd		6000.00	18085.12
8-31-12		15114.03		33199.15
8-31-12	#1188		10000.00	53199.15
9-16-12	#1199		10000.00	13199.15
9-30-12		15114.03		28313.18
10-7-12	#1213		6000.00	22313.18
10-15-12	#1217		9000.00	13313.18
10-30-12		15114.03		28427.03
11-15-12	#1236		16000.00	12427.03
11-30-12		15114.03		27541.03
12-20-12	? S.P. made dep		17000.00	10541.03
12-31-12		15114.03		25655.06
1-1-13	#1272	<del>15000.00</del>	15000.00	10655.06
1-31-13		15114.03		25769.09
2-28-13		15114.03		40883.12
2-29-13	#1295		12000.00	28883.12
3-13-13	#1303		9100.00	19883.12
3-31-13		15114.03		34997.15
4-10-13	#1318		20000.00	14997.15
4-30-13		15114.03		30111.18
5-12-13	#1338		13,000.00	17,111.18
5-31-13		15114.03		32225.21
6-2-13	#1348		7000.00	25,225.21
6-18-13	#1354		14000.00	11,225.21
6-30-13		15114.03		26339.24
7-31-13		15114.03		41453.27
7-18-13	#1374		12000.00	29453.27
8-19-13	#1392		15000.00	14453.27
8-31-13		15114.03		29567.03



Quarry

Sys - D

4/10/06

Date	Description	Debit	Credit	Balance
12-29-03	cert 6			1406.45
1-10-04	#1468, 1529, 1578		1406.45	0
1-31-04		342.72		342.72
2-19-04	#1502		342.72	0
2-29-04		342.72		342.72
3-31-04		514		34786
3-31-04		342.72		690.58
4-30-04		10.36		700.94
4-30-04		342.72		1043.66
4-28-04	#1678		342.72	700.94
5-31-04		1051		711.45
5-31-04		342.72		1054.17
6-10-04	cert 30	442		1058.59
6-30-04		15.88		1074.47
6-30-04		342.72		1417.19
6-28-04	cash		500.00	917.19
7-31-04		1376		930.95
7-31-04		342.72		1273.67
7-27-04	1000	442		1278.09
8-16-04	(cash)		1000.00	278.09
8-31-04		417		282.26
8-31-04		342.72		624.98
9-30-04		937		634.35
9-30-04		342.72		977.07
9-28-04	cert 10	442		981.49
10-2-04	cash		50500	476.49
10-31-04		715		483.64
10-31-04		342.72		826.36

2/10/05  
a  
need to pay 50000  
to pay 11.3 pp 6/11/19

R 22

Quality Inn  
Palmetto Inn & Suites  
1144 Bush River Rd  
Cola 29210

Quality Inn

2/10/3

748-2100  
Dina

342.72 mo

Date	Description	Debit	Credit	Balance
12-10-02	set up + dep	710.44		710.44
12-31-02		342.72		1053.16
1-13-03	#1154		1053.16	
1-31-03		342.72		342.72
2-17-03	#1181		342.72	
2-28-03		342.72		342.72
3-31-03		514		347.86
3-31-03		342.72		690.58
4-30-03	#1209		342.72	347.86
4-30-03		5.22		353.08
4-30-03		342.72		695.80
5-5-03	#1239		690.58	522
5-31-03		342.72		347.94
6-30-03		522		353.16
6-30-03		342.72		695.88
7-7-03	#1093		348.02	347.86
7-31-03		522		353.08
7-31-03		342.72		695.80
8-6-03	#1146 dated 7-20		342.72	353.08
8-31-03		830		358.38
8-31-03		342.72		701.10
9-1-03	#1359		701.10	
9-30-03		342.72		342.72
10-31-03		514		347.86
10-31-03		342.72		690.58
11-30-03		1036		700.94
11-30-03		342.72		1043.66
12-31-03		18.45		1059.31
12-31-03	ck pay	342.72		1402.03
12-29-03	cert led	442		1406.45

**BUSH RIVER UTILITIES, INC.  
BONDING REQUIREMENT EXHIBIT  
FOR THE TEST YEAR ENDING DECEMBER 31, 2003**

	Bush River Utilities, Inc.			Development Service, Inc.	Midlands Utility, Inc.
	Per Books	As Adjusted	After Proposed Increase	Per Books	Per Application (3)
<b>Bond Value Components</b>					
O & M Expense	\$137,394.00	\$127,233.00	\$127,233.00	\$202,630.00	\$379,360.00
G & A Expense	\$95,676.00	\$102,837.00	\$103,952.00	\$25,141.00	\$166,643.00
Taxes	\$12,480.00	\$13,468.00	\$14,042.00	\$6,126.00	\$29,528.00
Income Tax	\$1,795.00	\$5,995.00	\$26,934.00	\$0.00	\$0.00
Debt Service/Interest Expense	\$2,259.00	\$0.00	\$0.00	\$2,249.00	\$2,749.00
<b>Bond Value Requirement</b>	<b>\$249,604.00</b>	<b>\$249,533.00</b>	<b>\$272,161.00</b>	<b>\$236,146.00</b>	<b>\$578,280.00</b>
<b>Current Bond Structure (1)</b>	<b>Asset Value</b>	<b>Liabilities Reported (4)</b>	<b>Net Worth Reported</b>		
Cash	\$14,000.00	\$0.00	\$14,000.00		
Real Estate (2)	\$150,000.00	\$0.00	\$150,000.00		
Salary	\$70,000.00	\$0.00	\$70,000.00		
<b>Total Surety Pledged to Bond (5)</b>	<b>\$234,000.00</b>	<b>\$0.00</b>	<b>\$234,000.00</b>		

(1) As reported in Financial Statement approved by Commission Staff on 11/04.

(2) Property in name of Mary Parnell. No documented bond usage agreement in bonding file.

(3) Audit not complete by ORS.

(4) Company did not report any liabilities on Financial Statement.

(5) Same assets pledged as surety for Development Service, Inc., Bush River Utilities, Inc. and Midlands Utility, Inc..

**SECTION 58-5-720.** Filing of bond of certificates of deposit prior to approval by Commission of construction or other work on water or sewer system; forfeiture.

The commission shall, before the granting of authority or consent to any water or sewer utility regulated by the commission, for the construction, operation, maintenance, acquisition, expansion, or improvement of any facility or system, prescribe as a condition to the consent or approval that the utility shall file with the commission a bond with sufficient surety, as approved by the commission, in an amount not less than one hundred thousand dollars and not more than three hundred fifty thousand dollars payable to the commission and conditioned upon the provision by the utility of adequate and sufficient service within its service area or deliver to the commission certificates of deposit, with endorsements as required by the commission, of federal or state chartered banks or savings and loan associations who maintain an office in this State and whose accounts are insured by either the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation. The certificates of deposit shall not exceed the amount covered by insurance. The commission has the right, upon notice and hearing, to declare all or any part of the bond or certificate of deposit forfeited upon a determination by the commission that the utility failed to provide service without just cause or excuse and that this failure has continued for an unreasonable length of time. A further condition of the bond or certificate of deposit shall be the provision for payment to the commission of any fine or penalty imposed or assessed by the commission against the utility under the provisions of Section 58-5-710.

**Disclaimer**

This statutory database is current through the 2003 Regular Session of the South Carolina General Assembly. Changes to the statutes enacted by the 2004 General Assembly, which will convene in January 2004, will be incorporated as soon as possible. Some changes enacted by the 2004 General Assembly may take immediate effect. The State of South Carolina and the South Carolina Legislative Council make no warranty as to the accuracy of the data, and users rely on the data entirely at their own risk.

**103-512.3. Performance Bond.**

Prior to operating, maintaining, acquiring, expanding or improving any utility system, for which Commission approval is required, the utility shall have on file with the Commission a performance bond with sufficient surety using a format prescribed by the Commission.

**103-512.3.1. Amount of Bond.**

The amount of bond shall be based on, but not limited to, the total amount of the following categories of expenses for twelve months: Operation and Maintenance Expenses, General and Administrative Expenses, Taxes Other Than Income Taxes, Income Taxes, and Debt Service including Interest Expenses. The minimum amount of the bond shall be \$100,000 and the maximum amount of the bond shall be \$350,000. A bond shall be required for each water and wastewater provider under the jurisdiction of the Public Service Commission. A certification that the face amount of the bond on file with the Commission complies with the provisions of 103-512.3.1 of this rule shall be filed with the annual report required by 103-512.1 of this rule. The Staff shall review the annual reports and certifications and determine whether the present bond of the utility accurately reflects the expenses of the utility. Based upon the expenses of the utility as submitted in the annual report and as reviewed and adjusted by Staff, the Staff shall make recommendations for increasing or reducing the amount of the bond within the minimum and maximum limits as prescribed by statute.

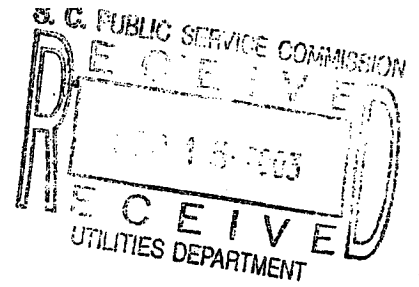
**103-512.3.2. Sureties.**

Sufficient surety may be any duly licensed bonding or insurance company authorized to do business in this State. A corporate surety, other than such a bonding or insurance company, shall not be considered sufficient surety. Sufficient surety may be any individual, as stockholder, partner, sole owner, etc., in the utility, so long as the individual surety's net worth is at least twice the face amount of the performance bond.

**103-512.3.3. Financial Statement.**

When any individual acts as surety, he shall file with the Commission annually a financial statement verified by said surety showing the individual surety's personal assets, liabilities, and net worth. The Commission may accept a verification of the financial statement in a format prescribed by the Commission.





PERFORMANCE BOND  
FINANCIAL STATEMENT  
(SEWER UTILITIES)

KNOW ALL MEN BY THESE PRESENTS, that Bush River Utility, Inc,  
being duly qualified to do business in the State of South Carolina, designated as "principal", and that  
Keith G. Parnell, designated as "surety"/"sureties" is/are held and firmly  
bound unto the Public Service Commission of South Carolina, designated as "obligee", in the penal  
sum of \$ 10,000.00, for the payment of which well and truly to be made, the principal binds  
itself, its successors and assigns, and the surety/sureties bind themselves, their personal representatives,  
and their assigns, jointly and severally, firmly by these presents.

WHEREAS, in accordance with the provisions of S.C. Code Ann., §58-5-720 (1976, as  
amended), which requires the principal to furnish a bond with sufficient surety, to the satisfaction of  
the obligee, conditioned as provided in said §58-5-720, and

WHEREAS, the obligee has granted the principal a Certificate of Public Convenience and  
Necessity and approved a schedule of rates for sewer service in areas shown on operating maps filed  
with the obligee, and

WHEREAS, this bond, when approved by the obligee, conditioned as in said §58-5-720, is to  
cover any and all liability which may arise as a result of the principal failing to provide adequate and  
sufficient service within its service area as prescribed in §58-5-720, and

FINANCIAL STATEMENT  
Sewer Utilities  
Page 2

WHEREAS, the obligee, upon notice and hearing, shall have the right to declare all or any part of the bond forfeited upon a determination by the obligee that the principal shall have willfully failed to provide such service as prescribed above, without just cause or excuse, and that such failure has continued for an unreasonable length of time, and

WHEREAS, the liability under the terms of this bond is hereby extended so as to include any fines or penalties imposed or assessed by the obligee against the principal under the provisions of S.C. Code Ann. §58-5-710 (1976 as amended), and

WHEREAS, in the event that any judicial action or proceedings are initiated with respect to this bond, the parties hereby agree that the venue thereof shall be Richland County, State of South Carolina, and

WHEREAS, the surety/sureties, as stockholders of the principal, undertake this obligation for and in consideration of the principal being able to continue to operate a sewer utility providing service to the public for compensation under the jurisdiction of the obligee, and

WHEREAS, the surety/sureties shall file with this bond a Financial Statement showing personal assets, liabilities, and net worth; and shall file annually with the obligee a revised Financial Statement as long as the bond continues in effect, and

WHEREAS, this bond shall become effective on the date executed by the principal and surety/sureties, and shall continue from year to year unless the obligations of the principal and surety/sureties under this bond are expressly released by the obligee in writing, and

FINANCIAL STATEMENT  
Sewer Utilities  
Page 3

WHEREAS, the obligee upon notice and opportunity to the principal and surety/sureties to be heard, may order that the face amount of this bond to be changed within the limits set forth in S.C. Code Ann., §58-5-720 (1976 as amended).

NOW THEREFORE, in testimony whereof, said principal has hereunto subscribed its name and said principal has caused this instrument to be signed by its duly authorized officers, and its corporate seal to hereunto affixed this 12th day of September, 2003; and that said surety/sureties have caused this instrument to be signed this 12th day of September, 2003.

SURETY/SURETIES:

Keith G. Parnell  
Signature

Bush River Utility, Inc.  
Company

Keith G. Parnell  
By  
President  
Title

IN THE PRESENCE OF

Buller Decell  
Witness #1

Walker Harrison  
Witness #2

IN THE PRESENCE OF

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Witness #1

\_\_\_\_\_  
Witness #2

ACKNOWLEDGMENT OF PRINCIPAL

STATE OF SOUTH CAROLINA

COUNTY OF Lexington

On September 12, 2003, before me personally came \_\_\_\_\_  
Keith G. Parnell to me known, and who being by me duly sworn,  
did depose and state: that he is the President of Bush River  
Utility, Inc, the Corporation which executed the foregoing  
instrument: that he knows the seal of said Corporation, that the seal affixed to the  
said instrument is such corporate seal; that it was so affixed by the order of the  
Board of Directors of said Corporation, and that he signed his name to said  
instrument by like order.

SWORN TO BEFORE ME THIS

12<sup>th</sup> day of Sept., 2003

Hail R. O'Leary  
Notary Public for South Carolina

My Commission Expires: 11-14-2010

(Affix seal if not South Carolina notary Public)

ACKNOWLEDGEMENT OF SURETY

STATE OF: South Carolina

COUNTY OF: Lexington

On September 12, 2003, before me personally came \_\_\_\_\_

Keith G. Parnell of Bush River Utility, Inc.

to me known and known to me to be the individual described in and who executed the  
forgoing instrument, and acknowledged to me that they executed the same.

SWORN to before me this

12<sup>th</sup> day of Sept., 2003

Notary Public for South Carolina

Gail R. [Signature]

My Commission Expires: 11-14-2010

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

FINANCIAL STATEMENT

DO NOT INCLUDE PERSONAL PROPERTY, FURNITURE,  
FIXTURES, JEWELRY OR FAMILY USED AUTOMOBILES

From KEITH G. PARWELL

Section 1 - Individual Information (Type or Print)

Section 2 - Spouse Information (Type or Print)

Name <u>KEITH G. PARWELL</u>	Name
Home Address <u>257 LIVINGSTON ROAD, GASTON SC</u>	Home Address
Position or Occupation <u>PRESIDENT</u>	Position or Occupation
Business Name <u>MIDLANDS UTILITY BUSH RICE UT., DSE</u>	Business Name
Business Address <u>816 E. MAIN STREET, LEX. SC.</u>	Business Address
No. of Dependents <u>1</u>	

Section 3 - Statement of Financial Condition as of November 1 2004

Assets (Do not include assets of doubtful value)	In Dollars (Omit Cents)	Liabilities	In Dollars (Omit Cents)
Cash: in Bank	\$	Notes Payable: to banks	\$
on hand and in other banks		to others from Schedule F	
savings accounts in banks and savings & loans	<u>14,000</u>	Mortgage Debt: from Schedule D	
Securities: listed & OTC from Schedule A		Other Debts: due to brokers	
unlisted from Schedule B		accounts & bills due	
held by broker's in margin accounts		unpaid taxes	
restricted or controlled stock		other debts - itemize	
Real Estate: partial interest in real estate from Schedule C	<u>150,000</u>		
real estate owned from Schedule D			
Other Assets: loans receivable (details below if significant)			
autos & personal property			
cash (not face) value life insurance - Schedule E			
other assets - itemize			
		Total liabilities	
		Net worth (total assets minus total liabilities)	
Total Assets	<u>164,000</u>	Total liabilities and net worth	\$

Sources of Income for Year Ended: 12/31/03

Personal Information

Salary	\$ <u>70,000</u>	Are you a partner or officer in any other venture? If so, please describe.
Bonuses & Commissions		<u>Bush Rice Utility, Midlands Utility, DSE</u>
Dividend & Interest		Are you obligated to pay alimony, child support, or separate maintenance payments? If so, please describe.
Real Estate Income		<u>NO</u>
Other Income (alimony, child support, or separate maintenance income need not be revealed unless you want bank to consider it)		Are any assets pledged other than as described on schedules: If so, please describe.
		<u>NO</u>
Total	\$	Income tax settled through (date) <u>12/31/03</u>

Contingent Liabilities

Do you endorse, co-make or guarantee any loans or have any other contingent obligations? If so, list below

Endorser, co-maker or guarantor	\$
Leases or contracts	
Legal claims	
Other special debt	<u>70,000</u>

Are you a defendant in any suits or legal actions? If so, Please describe

NO

Personal bank accounts are carried at:

BBAT

Have you ever been declared bankrupt? If so, please describe

NO

Schedule A - Listed & Over the Counter Securities

Number of Shares or Face Value of Bond	Description	In Name of	To Whom Pledged	Market Value	
				Per Share	Total

**Schedule B -- Unlisted Securities (if value significant, please provide financial information)**

Schedule B – Unlisted Securities (If value significant, please provide financial information)						
Number of Shares		Description	In Name of	To Whom Pledged	Source of Value	Value
Owned	Outstanding					
<b>Total</b>						

### Schedule C – Partial Interest in Real Estate Equities

[illegible]

### Schedule D – Real Estate Owned

Address & Type of Property	Title in Name of	Date Acquired	Cost	Mortgage		Market Value
				Amount	Maturity	
			<b>Total</b>		<b>Total</b>	

**Schedule E – Life Insurance Carried Including Any Group Insurance**

Name of Insurance Company	Owner of Policy	Beneficiary	Face Amount	Policy Loans	Cash Surrender Value
			<b>Totals</b>		

**Schedule F – Notes Payable to Others & Financial Institutions Where Credit has been Obtained**

Name & Address of Lender	Credit in Name of	Secured or Unsecured	Original Date	High Credit	Current Balance
				<b>Total</b>	

STATE OF

COUNTY OF

Keith G. Parnell

Keith G. Parnell being duly sworn, deposes and says that the foregoing financial statement, taken from his books, is a true and accurate statement of his financial condition as of the date thereof and that the answers to the foregoing interrogatories are true.

Sworn to before me this

10<sup>th</sup> day of Nov., 2004

Harry Oleser

**Notary Public**

(Applicant must sign here)

Date Signed 4/10/04 Soc. Sec. No. 250 11 5473

(Applicant must sign here)

Date Signed \_\_\_\_\_ Soc. Sec. No. \_\_\_\_\_

VERIFICATION OF FINANCIAL STATEMENT

PERSONALLY appeared before me KEITH G. PARWELL,  
known to me to be the individual described in and who executed the foregoing Financial  
Statement, and acknowledged to me that (s)he executed the same; that KEITH G. .  
PARWELL, being duly sworn, deposes and states, that (s)he has read the  
contents of the foregoing Financial Statement and that contents thereof are true of his/her  
own knowledge.

SWORN to before me this

10 Day of November, 2004

Hail R. Oliver

Notary Public for South Carolina

My Commission Expires: 11-14-2010



fax message

fax message

fax message

**BB&T****Eric Jewell**

309 Columbia Ave

Lexington, SC. 29072

Office 803-359-1680 Fax 803-359-6683

TO: Charles H. CookCOMPANY: Elliot & Elliot PAPHONE #: 771-0555FAX #: 771-8010DATE: 8/29/2003MESSAGE: Here is the Commitment Letter for Midlands UtilityThis is a 6 page document (including cover sheet)

## NOTE:

THE INFORMATION CONTAINED IN THIS FACSIMILE MESSAGE IS PRIVILEGED AND CONFIDENTIAL INFORMATION INTENDED ONLY FOR THE USE OF THE INDIVIDUAL OR ENTITY NAMED ABOVE. IF THE READER OF THIS MESSAGE IS NOT THE INTENDED RECIPIENT, YOU ARE HEREBY NOTIFIED THAT ANY DISSEMINATION, DISTRIBUTION OR COPY OF THIS COMMUNICATION IS STRICTLY PROHIBITED. IF YOU HAVE RECEIVED THIS COMMUNICATION IN ERROR, PLEASE NOTIFY US IMMEDIATELY BY TELEPHONE AND RETURN THE ORIGINAL MESSAGE TO US. THANK YOU.

fax message

fax message

fax message

**BB&T**Branch Banking & Trust Co.  
of South Carolina309 Columbia Avenue  
Lexington, SC 29072  
(803) 359-5111  
Fax (803) 359-6683

July 29, 2003

Midlands Utility Inc  
Attn: Keith ParnellCOMMITMENT LETTER

Dear Keith:

Branch Banking and Trust Company is pleased to offer you the following commitment for a loan. The terms and conditions of this Commitment are as follows:

1. Borrower: Midlands Utility, Bush River Utility, and Development Services Inc.
2. Purpose: The proceeds of the Loan shall be used by the Borrower to construct up to four new wastewater treatment facilities as approved by the Public Service Commission.
3. Collateral: The Loan shall be secured by a first mortgage on the facilities being constructed. The loan shall be secured by all equipment and sewer lines owned by borrower. The loan shall be secured by all ownership stock of the borrowing entities. The bank shall also take an assignment of any contracts with customers for Midlands Utility and related companies.
4. Amount: The maximum principal amount of the Loan shall be \$2,021,400.
5. Advances: The proceeds of the Loan shall be advanced as construction progresses and as rate increases are authorized by the Public Service Commission.
6. Interest Rate: The interest rate on the Loan shall be the variable rate of the bank's prime rate plus .40% (Prime rate is currently 4.00%). At the borrowers discretion, (before closing) they may elect to activate an optional collar, which would grant them an interest rate floor of 4.65% and ceiling of 7.70%. If the client elects to take the optional collars, the loan will therefore have a 1% prepayment penalty. Rate quotes are based on

Commitment Letter to Midlands Utility, Bush River Utility, and  
July 29, 2003

today's rate environment and assuming no substantial changes prior to closing, all efforts will be made to maintain the 305 basis point spread between stated floor and ceiling.

7. Repayment Terms: The loan is to be amortized over 15 years with a 5-year balloon. During the construction period, payments can be interest only for up to 12 months. Renewals for each ensuing 5-year period will be based upon a review of the current financial condition of the company from which ongoing cash flow for debt repayment can be documented.
8. Origination Fee: The bank shall charge an origination fee of \$12,500 to be paid at closing.
9. Prepayment: Bank shall charge a 1% prepayment premium should Borrower choose at any time to prepay part or all of the remaining principal balance due on the Loan. This prepayment penalty is contingent and active only upon acceptance of the interest rate floor and ceiling as stated in paragraph five of this document.
10. Documentation: At Loan closing, the Borrower shall execute a promissory note, Mortgage, Loan Agreement, and other related documents and instruments satisfactory to the Bank to evidence and secure the Loan. BB&T is to have separate legal counsel to ensure all appropriate documentation for debt obligation and lien perfection.
11. Survey and Flood Hazard Certification: Prior to the Loan closing, the Bank shall require the receipt of a satisfactory survey of the Collateral. The surveyor must provide certification that the improvements are not located in a special flood hazard area. The required surveys must evidence that any improvements, existing or to be constructed, are within the property boundary and that all structures remain in compliance with all setback and other requirements.
12. Title Insurance: Prior to the Loan closing, the Bank shall receive a standard mortgagee title insurance binder, and promptly after the Loan closing the Bank shall receive a standard mortgagee title insurance policy covering the mortgage satisfactory to the Bank as to coverage and amount. The binder and policy shall show no exceptions to coverage not acceptable to the Bank.
13. Hazard Insurance: At the Loan closing, the Borrower shall furnish Bank a hazard insurance policy for the replacement cost of the Collateral-naming Bank as mortgagee/loss payee. The insurance company issuing the policy must be acceptable to the Bank.

Commitment Letter to Midland Utility, Bush River Utility, at  
July 29, 2003

14. Appraisal: Prior to loan closing, the bank shall require a complete appraisal on the treatment facilities being erected. This appraisal shall be performed by a certified independent appraiser.
15. Environmental Site Assessment: Prior to the Loan closing, the bank shall require Phase 1 environmental assessments on the wastewater treatment facilities being financed.
16. Inspecting Representative: During construction, the Bank's inspecting representative will inspect the progress of construction.
17. Credit Qualifications: This Commitment is issued in reliance upon the accuracy and completeness of all information furnished by or for the Borrower and any co-signers or guarantors and is subject to the continued accuracy and completeness of all such information. The extension of credit by the Bank pursuant to this Commitment is subject to the condition precedent that the Borrower and any co-signers or guarantors shall after the date hereof maintain a financial condition acceptable to the Bank in its sole discretion. In addition, the Loan is conditioned upon there being no material adverse change which threatens the Borrower's ability to repay the Loan or pledge the Collateral to secure repayment.
18. Financial Information: While the Loan is outstanding, the Borrower shall provide the Bank with quarterly financial statements. Borrower must also provide the bank with annual personal tax returns and company financial statements within 120 days of the Borrower's fiscal year end.
19. Expense: All expenses associated with the Loan are to be paid by the Borrower. These expenses shall include, but are not limited to, the attorney's fees, appraisal fee, surveyor's fee, environmental engineer's fee, and all necessary recording fees. The bank shall allow borrower to use 2.5% (\$10,000) of the total loan proceeds to cover expenses associated with the loan closing.
20. Attorney's Opinion: The Bank shall require an approving legal opinion letter from Borrower's attorney, which must be acceptable to the Bank and Bank's counsel, stating, among others:
  - ... That the documents which evidence and secure the Loan are duly and validly executed and each constitutes a valid and legally binding obligation of the Borrower.
  - ... That the mortgage and other documents create a valid first lien on the interest of the Borrower in the Collateral.

Commitment Letter to Midlands Utility, Bush River Utility  
July 29, 2003

... That the Loan and its terms do not violate any laws including, but not limited to, any usury laws or similar laws of the jurisdiction where the Collateral is located.

... That there are no pending or threatened actions or suits against the Borrower that shall have a material adverse effect on its financial condition, or impair the ability of the Borrower to carry on its business substantially as now conducted.

21. Banking Relationship: The Borrower agrees to maintain its primary depository account(s) with the Bank.
22. Key Man Life Insurance: Both partners, Keith and Ken Parnell must maintain insurance policies of \$500,000 each, with BB&T listed as the beneficiary.
23. Personal Guaranty: Both Keith and Ken Parnell must guaranty the debt in full.
24. Documentation of all licenses: Borrower must furnish bank with copies of all operating licenses on the overall business as well as the plants being constructed (upon completion).
25. Documentation of Good standing: Borrower must furnish bank with letters of good standing or other documentation evidencing that Midlands Utility and related, remains in compliance with DHEC and the Public Service Commission.
26. Debt Service Coverage: Borrower must maintain a Debt Service Coverage ratio of at least 1.2. As noted in paragraph five of this document, any loan advances are contingent upon Midlands Utility and or related entities, acquiring authorization for the necessary rate increases to maintain the debt service coverage at the required level.
27. Conflicting Provisions: If any of the provisions of this commitment letter shall be construed to conflict with any terms or provisions contained in the Loan Documents, then the Loan Documents shall take priority.

Commitment Letter to Midlands Utility, Bush River Unit  
July 29, 2003

This Commitment is open for your acceptance until the close of business on August 11<sup>th</sup>, 2003 (the "Expiration Date"), at which time this Commitment expires if not accepted and returned to the Bank. In addition, this Commitment shall expire and the Bank shall not be required to make the Loan if the Loan does not close by November 30<sup>th</sup>, 2003. To acknowledge your acceptance, please return a signed copy of this letter to my attention at the following address ~~on or before~~ the Expiration Date:

Branch Banking and Trust Company  
309 Columbia Avenue  
Lexington, S.C. 29072

Very truly yours,

BRANCH BANKING AND TRUST COMPANY

By:


  
Eric Jewell

Title: Banking Officer

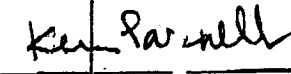
Phone: (803) 359-1180

The foregoing terms and conditions are hereby accepted and agreed to this 8<sup>th</sup> day  
of August 2003

By:

  
Keith Parnell

By:

  
Ken Parnell

## LOAN AGREEMENT

Midlands Utility, Inc.  
9521421107

This Loan Agreement (the "Agreement") is made this 8th day of April, 2004 by and between BRANCH BANKING AND TRUST COMPANY OF SOUTH CAROLINA, a South Carolina banking corporation ("Bank"), and:

Midlands Utility, Inc, a South Carolina corporation ("Borrower"), having its chief executive office at 816 E Main St Lexington SC 29072.

Bush River Utilities, Inc, a South Carolina corporation ("Borrower"), having its chief executive office at 816 E Main St Lexington SC 29072.

Development Service, Inc, a South Carolina corporation ("Borrower"), having its chief executive office at 816 E Main St Lexington SC 29072.

Keith Parnell & Charles K. Parnell (individually "Guarantor" and collectively the "Guarantors").

The Borrower has applied to Bank for and the Bank has agreed to make, subject to the terms of this Agreement, the following loan(s) (hereinafter referred to, singularly or collectively, if more than one, as "Loan"):

**Term Loan ("Term Loan")** in the principal amount of \$2,021,400 for the purpose of constructing up to four new wastewater treatment facilities as approved by the public service commission, which shall be evidenced by the Borrower's Promissory Note dated of even date herewith payable in 18 (eighteen) consecutive monthly interest payments followed by 41 (forty-one) installments of principal and interest and shall bear interest at a rate as described more particularly in such note, the terms of which are incorporated herein by reference. The Term Loan shall mature on 4/08/2009, when the entire unpaid principal balance then outstanding plus accrued interest thereon shall be paid in full. **Prepayment Compensation:** For any prepayment of the Loan the Bank shall be compensated as follows: 1% of the amount of principal prepayment.

## Section 1 Conditions Precedent

The Bank shall not be obligated to make any disbursement of Loan proceeds until all of the following conditions have been satisfied by proper evidence, execution, and/or delivery to the Bank of the following items in addition to this Agreement, all in form and substance satisfactory to the Bank and the Bank's counsel in their sole discretion:

**Note(s):** The Note(s) evidencing the Loans(s) duly executed by the Borrower.

**Mortgage(s):** The Mortgage(s) of Real Estate in which Borrower, or other owner thereof, shall grant to Bank a mortgage lien on the specified real property and improvements thereon ("Mortgaged Property").

**Title Opinion:** A favorable opinion of title from legal counsel acceptable to the Bank certifying that the Borrower, or other owner thereof, has good and marketable fee simple title to the Mortgaged Property and that the Mortgage(s) granted to the Bank constitutes a first priority lien thereon without exceptions, except as are acceptable to the Bank and the Bank's counsel.

**Survey:** A certified copy of a recent survey of the Mortgaged Property prepared by a registered land surveyor or a civil engineer.

**Environmental Audit Report:** A favorable "Phase I" unedited environmental audit (or comparable examination) covering the Mortgaged Property from an independent environmental engineering firm satisfactory to Bank which reflects that no hazardous waste, toxic substances, or other hazardous materials have contaminated the Mortgaged Property or, if the Mortgaged Property has been so contaminated, that it has been satisfactorily cleaned up in accordance with all Environmental Laws. The Bank shall be fully authorized to discuss all aspects of the audit with the engineering firm.

**Control Agreement:** A Control Agreement pertaining to Deposit Accounts, Letter-of-Credit Rights and/or Electronic Chattel Paper, as required in connection with the Security Agreement(s).

**Authorization and Certificate:** An Authorization and Certificate executed by each Debtor under which such Debtor authorizes Bank to file a UCC Financing Statement describing collateral owned by such Debtor.

**Commitment Fee:** A commitment fee (or balance thereof) of \$12,500 payable to the Bank on the date of execution of the Loan Documents.

**Corporate Resolution:** A Corporate Resolution duly adopted by the Board of Directors of the Borrower authorizing the execution, delivery, and performance of the Loan Documents on or in a form provided by or acceptable to Bank.

**Articles of Incorporation:** A copy of the Articles of Incorporation and all other charter documents of the Borrower, all filed with and certified by the Secretary of State of the State of the Borrower's incorporation.

**By-Laws:** A copy of the By-Laws of the Borrower, certified by the Secretary of the Borrower as to their completeness and accuracy.

**Certificate of Incumbency:** A certificate of the Secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign the Loan Documents.

**Certificate of Existence:** A certification of the Secretary of State (or other government authority) of the State of the Borrower's Incorporation or Organization as to the existence or good standing of the Borrower and its charter documents on file.

**Opinion of Counsel:** An opinion of counsel for the Borrower satisfactory to the Bank and the Bank's counsel.

**Guaranty:** Guaranty Agreement(s) duly executed by the Guarantor(s).

**Assignment of Life Insurance Policy(ies):** An assignment of life insurance policy(ies) as collateral on the life of Keith Parnell and Charles K. Parnell in the amount of \$500,000 each by an insurance company acceptable to the Bank.

**Securities Account Pledge and Security Agreement(s):** A Securities Account Pledge and Security Agreement for each pledged securities account maintained with an independent broker or other securities intermediary.

**Securities Account Control Agreement(s):** A Control Agreement for each pledged securities account maintained with an independent broker, or securities intermediary.

**Appraisal(s):** Two (2) copies of an appraisal ordered by the Bank of the estimated market value of the real and/or personal property offered as collateral for the Loan(s) referenced herein. The appraisal(s) must be addressed to the Bank and must conform to the Uniform Standards of Professional Appraisal Practice ("USPAP") adopted by the Appraisal Standards Board of the Appraisal Foundation. Any deviation from the USPAP must be explained in the appraisal(s). The appraiser(s) must be licensed and/or certified if required by applicable Federal Deposit Insurance Corporation regulations or state laws.

**Additional Documents:** Receipt by the Bank of other approvals, opinions, or documents as the Bank may reasonably request. With regard to disbursements for improvements on the 2.36 acreage, "Raintree Track", the issuance of a final title insurance policy without exceptions for unrecorded plats.

The Borrower and Guarantor(s) represent and warrant to Bank that:

2.01. **Financial Statements.** The balance sheet of the Borrower and its subsidiaries, if any, and the related Statements of Income and Retained Earnings of the Borrower and its subsidiaries, the accompanying footnotes together with the accountant's opinion thereon, and all other financial information previously furnished to the Bank, are true and correct and fairly reflect the financial condition of the Borrower and its subsidiaries as of the dates thereof, including all contingent liabilities of every type, and the financial condition of the Borrower and its subsidiaries as stated

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## LOAN AGREEMENT

therein has not changed materially and adversely since the date thereof. Each Guarantor further represents and warrants that all financial statements provided by such Guarantor to Bank concerning such Guarantor's financial condition are true and correct and fairly represent such Guarantor's financial condition as of the dates thereof.

**2.02. Name, Capacity and Standing.** The Borrower's exact legal name is correctly stated in the initial paragraph of the Agreement. If the Borrower and/or any Guarantor is a corporation, general partnership, limited partnership, limited liability partnership, or limited liability company, each warrants and represents that it is duly organized and validly existing under the laws of its respective state of incorporation or organization; that it and/or its subsidiaries, if any, are duly qualified and in good standing in every other state in which the nature of their business shall require such qualification, and are each duly authorized by their board of directors, general partners or member/manager(s), respectively, to enter into and perform the obligations under the Loan Documents.

**2.03. No Violation of Other Agreements.** The execution of the Loan Documents, and the performance by the Borrower, by any and all pledgors (whether the Borrower or other owners of collateral property securing payment of the Loan (hereinafter sometimes referred to as the "Pledgor")) or by the Guarantor(s) thereunder will not violate any provision, as applicable, of its articles of incorporation, by-laws, articles of organization, operating agreement, agreement of partnership, limited partnership or limited liability partnership, or, of any law, other agreement, indenture, note, or other instrument binding upon the Borrower, Pledgor or Guarantor(s), or give cause for the acceleration of any of the respective obligations of the Borrower or Guarantor(s).

**2.04. Authority.** All authority from and approval by any federal, state, or local governmental body, commission or agency necessary to the making, validity, or enforceability of this Agreement and the other Loan Documents has been obtained.

**2.05. Asset Ownership.** The Borrower and each Guarantor have good and marketable title to all of the properties and assets reflected on the balance sheets and financial statements furnished to the Bank, and all such properties and assets are free and clear of mortgages, deeds of trust, pledges, liens, and all other encumbrances except as otherwise disclosed by such financial statements. In addition, each other owner of collateral has good and marketable title to such collateral, free and clear of any liens, security interests and encumbrances, except as otherwise disclosed to Bank.

**2.06. Discharge of Liens and Taxes.** The Borrower and its subsidiaries, if any, and each Guarantor have filed, paid, and/or discharged all taxes or other claims which may become a lien on any of their respective properties or assets, excepting to the extent that such items are being appropriately contested in good faith and for which an adequate reserve (in an amount acceptable to Bank) for the payment thereof is being maintained.

**2.07. Regulation U.** None of the Loan proceeds shall be used directly or indirectly for the purpose of purchasing or carrying any margin stock in violation of the provisions of Regulation U of the Board of Governors of the Federal Reserve System.

**2.08. ERISA.** Each employee benefit plan, as defined by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), maintained by the Borrower or by any subsidiary of the Borrower or Guarantor(s) meets, as of the date hereof, the minimum funding standards of Section 302 of ERISA, all applicable requirements of ERISA and of the Internal Revenue Code of 1986, as amended, and no "Reportable Event" nor "Prohibited Transaction" (as defined by ERISA) has occurred with respect to any such plan.

**2.09. Litigation.** There is no claim, action, suit or proceeding pending, threatened or reasonably anticipated before any court, commission, administrative agency, whether State or Federal, or arbitration which will materially adversely affect the financial condition, operations, properties, or business of the Borrower or its subsidiaries, if any, or the Guarantor(s), or the ability of the Borrower or the Guarantor(s) to perform their obligations under the Loan Documents.

**2.10. Other Agreements.** The representations and warranties made by Borrower to Bank in the other Loan Documents are true and correct in all respects on the date hereof.

**2.11. Binding and Enforceable.** The Loan Documents, when executed, shall constitute valid and binding obligations of the Borrower and Guarantors respectively, the execution of such Loan Documents has been duly authorized by the parties thereto, and are enforceable in accordance with their terms, except as may be limited by bankruptcy, insolvency, moratorium, or similar laws affecting creditors' rights generally.

**2.12. Commercial Purpose.** The Loan(s) are not "consumer transactions", as defined in the South Carolina Uniform Commercial Code, and none of the collateral was or will be purchased or held primarily for personal, family or household purposes.

### Section 3 Affirmative Covenants

The Borrower covenants and agrees that from the date hereof and until payment in full of all indebtedness and performance of all obligations owed under the Loan Documents, Borrower shall:

**3.01. Maintain Existence and Current Legal Form of Business.** (a) Maintain its existence and good standing in the state of its incorporation or organization, (b) maintain its current legal form of business indicated above, and, (c) as applicable, qualify and remain qualified as a foreign corporation, general partnership, limited partnership, limited liability partnership or limited liability company in each jurisdiction in which such qualification is required.

**3.02. Maintain Records.** Keep adequate records and books of account, in which complete entries will be made in accordance with GAAP consistently applied, reflecting all financial transactions of the Borrower.

**3.03. Maintain Properties.** Maintain, keep, and preserve all of its properties (tangible and intangible) including the collateral necessary or useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted.

**3.04. Conduct of Business.** Continue to engage in an efficient, prudent, and economical manner in a business of the same general type as now conducted.

**3.05. Maintain Insurance.** Maintain insurance with financially sound and reputable insurance companies or associations in such amounts and covering such risks as are usually carried by companies engaged in the same or a similar business, and business interruption insurance if required by Bank, which insurance may provide for reasonable deductible(s). The Bank shall be named as loss payee (Long Form) on all policies which apply to the Bank's collateral, and the Borrower shall deliver certificates of insurance at closing evidencing same. All such insurance policies shall provide, and the certificates shall state, that no policy will be terminated without 20 days prior written notice to Bank.

**3.06. Comply With Laws.** Comply in all respects with all applicable laws, rules, regulations, and orders including, without limitation, paying before the delinquency of all taxes, assessments, and governmental charges imposed upon it or upon its property, and all Environmental Laws.

**3.07. Right of Inspection.** Permit the officers and authorized agents of the Bank, at any reasonable time or times in the Bank's sole discretion, to examine and make copies of the records and books of account of, to visit the properties of the Borrower, and to discuss such matters with any officers, directors, managers, members or partners, limited or general of the Borrower, and the Borrower's independent accountant as the Bank deems necessary and proper.

**3.08. Reporting Requirements.** Furnish to the Bank:

**Quarterly Financial Statements:** As soon as available and not more than 60 (sixty) days after the end of each quarter, balance sheets, statements of income, cash flow, and retained earnings for the period ended and a statement of changes in the financial position, all in reasonable detail, and all prepared in accordance with GAAP consistently applied and certified as true and correct by an officer, general partner or manager (or member(s)) of the Borrower, as appropriate.

**Annual Financial Statements:** As soon as available and not more than 120 (one hundred and twenty) days after the end of each fiscal year, balance sheets, statements of income, and retained earnings for the period ended and a statement of changes in the financial position, all in reasonable detail, and all prepared in accordance with GAAP consistently applied.

**Notice of Litigation:** Promptly after the receipt by the Borrower, or by any Guarantor of which Borrower has knowledge, of notice or complaint of any action, suit, and proceeding before any court or administrative agency of any type which, if determined adversely, could have a material adverse effect on the financial condition, properties, or operations of the Borrower or Guarantor, as appropriate.



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**Tax Returns:** As soon as available each year, complete copies (including all schedules) of all state and federal tax returns filed by Borrower.

**Notice of Default:** Promptly upon discovery or knowledge thereof, notice of the existence of any event of default under this Agreement or any other Loan Documents.

**Other Information:** Such other information as the Bank may from time to time reasonably request.

3.09. **Deposit Accounts.** Maintain substantially all of its demand deposit/operating accounts with the Bank.

3.10. **Affirmative Covenants from other Loan Documents.** All affirmative covenants contained in any Mortgage, Security Agreement, Assignment of Leases and Rents, or other security document executed by the Borrower which are described in paragraph 2 hereof are hereby incorporated by reference herein.

**Section 4 Guarantor(s) Covenants**

Each Guarantor covenants and agrees that from the date hereof and until payment in full of all indebtedness and performance of all obligations owed under the Loan Documents, Guarantor shall:

4.01. **Maintain Existence and Current Legal Form of Business.** If Guarantor is a corporation, partnership, limited partnership, limited liability partnership or limited liability company, (a) maintain its existence and good standing in the state of its incorporation or organization, (b) maintain its current legal form of business as shown on the guaranty agreement provided by Guarantor to Bank in connection with the Loan, and (c) without the Bank's prior written consent, change Guarantor's name, or enter into any merger, consolidation, reorganization or exchange of stock, ownership interests or assets, and (d) as applicable, qualify and remain qualified as a foreign corporation, general partnership, limited partnership, limited liability partnership or limited liability company in each jurisdiction in which such qualification is required.

4.02. **Maintain Properties.** Not, without the prior written consent of Bank, sell, transfer or otherwise dispose of all or substantially all of Guarantor's properties (tangible and intangible), except in the ordinary course of business.

4.03. **Comply With Laws.** Comply in all respects with all applicable laws, rules, regulations, and orders including, without limitation, paying before the delinquency of all taxes, assessments, and governmental charges imposed or assessed upon Guarantor or upon Guarantor's property, and all Environmental Laws.

4.04. **Reporting Requirements.** Furnish to the Bank:

**Annual Financial Statement(s):** If Guarantor is an individual, a personal financial statement promptly after the anniversary date of the Loan, on form provided by the Bank and in such reasonable detail as the Bank may require; or, if Guarantor is a corporation, general partnership, limited partnership, limited liability partnership or limited liability company, as soon as available and not more than 120 (one hundred and twenty) days after the end of each fiscal year of Guarantor, balance sheets, statements of income, and retained earnings for the period ended and a statement of changes in financial position, on form(s) to be provided by the Bank, all in reasonable detail, and all prepared in accordance with GAAP consistently applied.

**Notice of Litigation:** Promptly after the receipt by Guarantor, or by Borrower of which Guarantor has knowledge, of notice of any action, suit, and proceeding before any court or governmental agency of any type which, if determined adversely, could have a material adverse effect on the financial condition, properties, or operations of the Guarantor or Borrower, as appropriate.

4.05. **Transfer of Ownership.** Not, without the prior written consent of the Bank: If Guarantor is a corporation, (a) issue, transfer or sell any new class of stock, or (b) issue, transfer or sell, in the aggregate, from its treasury stock and/or currently authorized but unissued shares of any class of stock, more than 10% of the total number of all such issued and outstanding shares as of the date of this Agreement; or, if Borrower is a general partnership, limited partnership, limited liability partnership or limited liability company, issue, transfer or sell any interest in Borrower.

4.06. **Tax Returns:** As soon as available each year, furnish complete copies (including all schedules) of all state and federal tax returns filed by Guarantor.

4.07. **Other Information:** Furnish such other information as the Bank may from time to time reasonably request.

**Section 5 Financial Covenants**

The Borrower covenants and agrees that from the date hereof until payment in full of all indebtedness and the performance of all obligations under the Loan Documents, the Borrower shall at all times maintain the following financial covenants and ratios all in accordance with GAAP unless otherwise specified:

5.01. **Debt Service Coverage.** Borrower must maintain a Debt Service Coverage ratio of at least 1.20.

5.02. **Advances** Proceeds from the loan designated for improvements shall only be advanced after the Borrower has obtained approval for the rate increase from the Public Service Commission, that will allow the Borrower's income to support the debt at the required coverage rate (1.20) as stated above in section 5.01.

**Section 6 Negative Covenants**

The Borrower covenants and agrees that from the date hereof and until payment in full of all indebtedness and performance of all obligations under the Loan Documents, the Borrower shall not, without the prior written consent of the Bank:

6.01. **Liens.** Create, incur, assume, or suffer to exist any lien upon or with respect to any of Borrower's properties, or the properties of any Pledgor securing payment of the Loan, now owned or hereafter acquired, except:

- (a) Liens and security interests in favor of the Bank;
- (b) Liens for taxes not yet due and payable or otherwise being contested in good faith and for which appropriate reserves are maintained;
- (c) Other liens imposed by law not yet due and payable, or otherwise being contested in good faith and for which appropriate reserves are maintained;
- (d) Liens on N/A securing an obligation to N/A not to exceed \$ N/A, or described on Schedule "N/A" attached hereto;
- (e) purchase money security interests on any property hereafter acquired, provided that such lien shall attach only to the property acquired.

6.02. **Debt.** Create, incur, assume, or suffer to exist any debt, except:

- (a) Debt to the Bank;
- (b) Debt outstanding on the date hereof and shown on the most recent financial statements submitted to the Bank;
- (c) Accounts payable to trade creditors incurred in the ordinary course of business;
- (d) Debt secured by purchase money security interests as outlined above in Section 6.01 (e);
- (e) Additional debt not to exceed \$ N/A in the aggregate at any time.

6.03. **Capital Expenditures.** Expenditures for fixed assets in any fiscal year shall not exceed in the aggregate the sum of \$ N/A.

6.04. **Change of Legal Form of Business; Purchase of Assets.** Change Borrower's name or the legal form of Borrower's business as shown above, whether by merger, consolidation, conversion or otherwise, and Borrower shall not purchase all or substantially all of the assets or business of any Person.

6.05. **Leases.** Create, incur, assume, or suffer to exist any leases, except:

- (a) Leases outstanding on the date hereof and showing on the most recent financial statement submitted to the Bank;
- (b) Operating Leases for machinery and equipment which do not in the aggregate require payments in excess of \$ N/A in any fiscal year of the Borrower.

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- 6.06. **Dividends or Distributions; Acquisition of Capital Stock or Other Ownership Interests.** Declare or pay any dividends or distributions of any kind, or purchase or redeem, retire, or otherwise acquire any of Borrower's capital stock or other ownership interests, now or hereafter outstanding, in excess of \$ N/A in any fiscal year of the Borrower.
- 6.07. **Salaries.** Salaries and any other cash compensation to owners/officers/partners/managers shall be limited as follows: N/A.
- 6.08. **Guaranties.** Assume, guarantee, endorse, or otherwise be or become directly or contingently liable for obligations of any Person, except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business.
- 6.09. **Loans.** Loans to directors, officers, partners, members, shareholders, subsidiaries and affiliates shall be limited as follows: N/A.
- 6.10. **Disposition of Assets.** Sell, lease, or otherwise dispose of any of its assets or properties except in the ordinary and usual course of its business.
- 6.11. **Transfer of Ownership.** If Borrower is a corporation, (a) issue, transfer or sell any new class of stock, or (b) issue, transfer or sell, in the aggregate, from its treasury stock and/or currently authorized but unissued shares of any class of stock, more than 10% of the total number of all such issued and outstanding shares as of the date of this Agreement. If Borrower is a general partnership, limited partnership, limited liability partnership or limited liability company, issue, transfer or sell any interest in Borrower.
- 6.12. **Negative Covenants from other Loan Documents.** All negative covenants contained in any Deed of Trust, Security Agreement, Assignment of Leases or Rents, or other security document executed by the Borrower which are described in paragraph 2 hereof are hereby incorporated by reference herein.
- 6.13.

**Section 7 Hazardous Materials and Compliance with Environmental Laws**

7.01. **Investigation.** Borrower hereby certifies that it has exercised due diligence to ascertain whether its real property, including without limitation the Mortgaged Property, is or has been affected by the presence of asbestos, oil, petroleum or other hydrocarbons, urea formaldehyde, PCBs, hazardous or nuclear waste, toxic chemicals and substances, or other hazardous materials (collectively, "Hazardous Materials"), as defined in applicable Environmental Laws. Borrower represents and warrants that there are no such Hazardous Materials contaminating its real property, nor have any such materials been released on or stored on or improperly disposed of on its real property during its ownership, occupancy or operation thereof. Borrower hereby agrees that, except in strict compliance with applicable Environmental Laws, it shall not knowingly permit any release, storage or contamination as long as any indebtedness or obligations to Bank under the Loan Documents remains unpaid or unfulfilled. In addition, Borrower does not have or use any underground storage tanks on any of its real property, including the Mortgaged Property which are not registered with the appropriate Federal and/or State agencies and which are not properly equipped and maintained in accordance with all Environmental Laws. If requested by Bank, Borrower shall provide Bank with all necessary and reasonable assistance required for purposes of determining the existence of Hazardous Materials on the Mortgaged Property, including allowing Bank access to the Mortgaged Property, and access to Borrower's employees having knowledge of, and to files and records within Borrower's control relating to the existence, storage, or release of Hazardous Materials on the Mortgaged Property.

7.02. **Compliance.** Borrower agrees to comply with all applicable Environmental Laws, including, without limitation, all those relating to Hazardous Materials. Borrower further agrees to provide Bank, and all appropriate Federal and State authorities, with immediate notice in writing of any release of Hazardous Materials on the Mortgaged Property and to pursue diligently to completion all appropriate and/or required remedial action in the event of such release.

7.03. **Remedial Action.** Bank shall have the right, but not the obligation, to undertake all or any part of such remedial action in the event of a release of Hazardous Materials on the Mortgaged Property and to add any expenditures so made to the principal indebtedness secured by the Mortgage. Borrower agrees to indemnify and hold Bank harmless from any and all loss or liability arising out of any violation of the representations, covenants, and obligations contained in this Section 7, or resulting from the recording of the Mortgage.

**Section 8 Events of Default**

The following shall be "Events of Default" by Borrower or any Guarantor:

- 8.01. The failure to make prompt payment of any installment of principal or interest on any of the Note(s) when due or payable.
- 8.02. Should any representation or warranty made in the Loan Documents prove to be false or misleading in any material respect.
- 8.03. Should any report, certificate, financial statement, or other document furnished prior to the execution of or pursuant to the terms of this Agreement prove to be false or misleading in any material respect.
- 8.04. Should the Borrower, any Guarantor default on the performance of any other obligation of indebtedness when due or in the performance of any obligation incurred in connection with money borrowed.
- 8.05. Should the Borrower, any Guarantor or any Pledgor breach any covenant, condition, or agreement made under any of the Loan Documents.
- 8.06. Should a custodian be appointed for or take possession of any or all of the assets of the Borrower or any Guarantor, or should the Borrower or any Guarantor either voluntarily or involuntarily become subject to any insolvency proceeding, including becoming a debtor under the United States Bankruptcy Code, any proceeding to dissolve the Borrower or any Guarantor, any proceeding to have a receiver appointed, or should the Borrower or any Guarantor make an assignment for the benefit of creditors, or should there be an attachment, execution, or other judicial seizure of all or any portion of the Borrower's or any Guarantor's assets, including an action or proceeding to seize any funds on deposit with the Bank, and such seizure is not discharged within 30 days.
- 8.07. Should final judgment for the payment of money be rendered against the Borrower or any Guarantor which is not covered by insurance and shall remain undischarged for a period of 30 days unless such judgment or execution thereon be effectively stayed.
- 8.08. Upon the death of, or termination of existence of, or dissolution of, any Borrower, Pledgor or Guarantor.
- 8.09. Should the Bank in good faith deem itself, its liens and security interests, if any, or any debt thereunder unsafe or insecure, or should the Bank believe in good faith that the prospect of payment of any debt or other performance by the Borrower or any Guarantor is impaired.
- 8.10. Should any lien or security interest granted to Bank to secure payment of the Note(s) terminate, fail for any reason to have the priority agreed to by Bank on the date granted, or become unperfected or invalid for any reason.
- 8.11..

**Section 9 Remedies Upon Default**

Upon the occurrence of any of the above listed Events of Default, the Bank may at any time thereafter, at its option, take any or all of the following actions, at the same or at different times:

- 9.01. Declare the balance(s) of the Note(s) to be immediately due and payable, both as to principal and interest, without presentment, demand, protest, or notice of any kind, all of which are hereby expressly waived by Borrower and, each Guarantor, and such balance(s) shall accrue interest at the Default Rate as provided herein until paid in full;
- 9.02. Require the Borrower or Guarantor(s) to pledge additional collateral to the Bank from the Borrower's or any Guarantor's assets and properties, the acceptability and sufficiency of such collateral to be determined in the Bank's sole discretion;
- 9.03. Take immediate possession of and foreclose upon any or all collateral which may be granted to the Bank as security for the indebtedness and obligations of Borrower or any Guarantor under the Loan Documents;
- 9.04. Exercise any and all other rights and remedies available to the Bank under the terms of the Loan Documents and applicable law, including the South Carolina Uniform Commercial Code;

# BB&T

## LOAN AGREEMENT

9.05. Any obligation of the Bank to advance funds to the Borrower or any other Person under the terms of under the Note(s) and all other obligations, if any, of the Bank under the Loan Documents shall immediately cease and terminate unless and until Bank shall reinstate such obligation in writing.

### Section 10 Miscellaneous Provisions

#### 10.01. Definitions.

"Availability" shall mean the lesser of (i) \$ N/A or (ii) the Collateral Loan Value shown on the Loan Base Report furnished by Borrower to Bank on or before the N/A day of each N/A as long as this Agreement shall remain in force. The percentages of acceptable collateral, as defined by Bank, which will be used to determine the Collateral Loan Value, shall be the following (unless otherwise set forth in Schedule DD and/or DD-IFA hereto): Eligible Inventory - N/A %; Eligible Accounts - N/A %; Insured Foreign Accounts - N/A %.

"Default Rate" shall mean a rate of interest equal to Bank's Prime Rate plus five percent (5%) per annum (not to exceed the legal maximum rate) from and after the date of an Event of Default hereunder which shall apply, in the Bank's sole discretion, to all sums owing, including principal and interest, on such date.

"Environmental Laws" shall mean all federal and state laws and regulations which affect or may affect the Mortgaged Property, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. Sections 9601 et seq.), the Resource Conservation and Recovery Act (42 U.S.C. Sections 6901 et seq.), the Federal Water Pollution Control Act (33 U.S.C. Sections 1251 et seq.), the Clean Air Act (42 U.S.C. Section 7401 et seq.), the Toxic Substances Control Act (15 U.S.C. Section 2601 et seq.), the Pollution Control Act (1976 S.C. Code 48-1-10 et seq.), the Erosion and Sediment Reduction Act of 1983 (1976 S.C. Code 48-18-10 et seq.), the South Carolina Mining Act (1976 S.C. Code 48-19-10 et seq.), as such laws or regulations have been amended or may be amended.

"Loan Documents" shall mean this Agreement including any schedule attached hereto, the Note(s), the Deed(s) of Trust, the Mortgage(s), the Security Agreement(s), the Assignment(s) of Leases and Rents, all UCC Financing Statements, the Guaranty Agreement(s), and all other documents, certificates, and instruments executed in connection therewith, and all renewals, extensions, modifications, substitutions, and replacements thereto and therefore.

"Person" shall mean an individual, partnership, corporation, trust, unincorporated organization, limited liability company, limited liability partnership, association, joint venture, or a government agency or political subdivision thereof.

"GAAP" shall mean generally accepted accounting principles as established by the Financial Accounting Standards Board or the American Institute of Certified Public Accountants, as amended and supplemented from time to time.

"Prime Rate" shall mean the rate of interest per annum announced by the Bank from time to time and adopted as its Prime Rate, which is one of several rate indexes employed by the Bank when extending credit, and may not necessarily be the Bank's lowest lending rate.

10.02. Non-impairment. If any one or more provisions contained in the Loan Documents shall be held invalid, illegal, or unenforceable in any respect, the validity, legality, and enforceability of the remaining provisions contained therein shall not in any way be affected or impaired thereby and shall otherwise remain in full force and effect.

10.03. Applicable Law. The Loan Documents shall be construed in accordance with and governed by the laws of the State of South Carolina.

10.04. Waiver. Neither the failure or any delay on the part of the Bank in exercising any right, power or privilege granted in the Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise of any other right, power, or privilege which may be provided by law.

10.05. Modification. No modification, amendment, or waiver of any provision of any of the Loan Documents shall be effective unless in writing and signed by the Borrower and Bank.

10.06. Payment Amount Adjustment. In the event that any Loan(s) referenced herein has a variable (floating) interest rate and the interest rate increases, Bank, at its sole discretion, may at any time adjust the Borrower's payment amount(s) to prevent the amount of interest accrued in a given period to exceed the periodic payment amount or to cause the Loan(s) to be repaid within the same period of time as originally agreed upon.

10.07. Stamps and Fees. The Borrower shall pay all federal or state stamps, taxes, or other fees or charges, if any are payable or are determined to be payable by reason of the execution, delivery, or issuance of the Loan Documents or any security granted to the Bank; and the Borrower and Guarantor agree to indemnify and hold harmless the Bank against any and all liability in respect thereof.

10.08. Attorneys' Fees. In the event the Borrower or any Pledgor or Guarantor shall default in any of its obligations hereunder and the Bank believes it necessary to employ an attorney to assist in the enforcement or collection of the indebtedness of the Borrower to the Bank, to enforce the terms and provisions of the Loan Documents, to modify the Loan Documents, or in the event the Bank voluntarily or otherwise should become a party to any suit or legal proceeding (including a proceeding conducted under the Bankruptcy Code), the Borrower and Guarantors agree to pay the reasonable attorneys' fees of the Bank and all related costs of collection or enforcement that may be incurred by the Bank. The Borrower and Guarantor shall be liable for such attorneys' fees and costs whether or not any suit or proceeding is actually commenced.

10.09. Bank Making Required Payments. In the event Borrower shall fail to maintain insurance, pay taxes or assessments, costs and expenses which Borrower is, under any of the terms hereof or of any Loan Documents, required to pay, or fail to keep any of the properties and assets constituting collateral free from new security interests, liens, or encumbrances, except as permitted herein, Bank may at its election make expenditures for any or all such purposes and the amounts expended together with interest thereon at the Default Rate, shall become immediately due and payable to Bank, and shall have benefit of and be secured by the collateral; provided, however, the Bank shall be under no duty or obligation to make any such payments or expenditures.

10.10. Right of Offset. Any indebtedness owing from Bank to Borrower may be set off and applied by Bank on any indebtedness or liability of Borrower to Bank, at any time and from time to time after maturity, whether by acceleration or otherwise, and without demand or notice to Borrower. Bank may sell participations in or make assignments of any Loan made under this Agreement, and Borrower agrees that any such participant or assignee shall have the same right of setoff as is granted to the Bank herein.

10.11. UCC Authorization. Borrower authorizes Bank to file such UCC Financing Statements describing the collateral in any location deemed necessary and appropriate by Bank.

10.12. Modification and Renewal Fees. Bank may, at its option, charge any fees for modification, renewal, extension, or amendment of any terms of the Note(s) permitted by law.

10.13. Conflicting Provisions. If provisions of this Agreement shall conflict with any terms or provisions of any of the Note(s) or Security Agreement(s), the provisions of such Note(s) or Security Agreement(s), as appropriate, shall take priority over any provisions in this Agreement.

10.14. Notices. Any notice permitted or required by the provisions of this Agreement shall be deemed to have been given when delivered in writing to the City Executive or any Vice President of the Bank at its offices in Lexington, South Carolina, and to the President of the Borrower at its offices in Lexington, South Carolina when sent by certified mail and return receipt requested.

10.15. Consent to Jurisdiction. Borrower hereby irrevocably agrees that any legal action or proceeding arising out of or relating to this Agreement may be instituted in the Superior Court in Greenville County, South Carolina, or the United States District Court for South Carolina Greenville Division, or in such other appropriate court and venue as Bank may choose in its sole discretion. Borrower consents to the jurisdiction of such courts and waives any objection relating to the basis for personal or in rem jurisdiction or to venue which Borrower may now or hereafter have in any such legal action or proceedings.

10.16. Counterparts. This Agreement may be executed by one or more parties on any number of separate counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

10.17. Entire Agreement. The Loan Documents embody the entire agreement between Borrower and Bank with respect to the Loans, and there are no oral or parol agreements existing between Bank and Borrower with respect to the Loans which are not expressly set forth in the Loan Documents.

**BB&T**  
**LOAN AGREEMENT**

**EXHIBIT DMH-9**  
**PAGE 12 OF 19**

**[SIGNATURES ON FOLLOWING PAGE]**

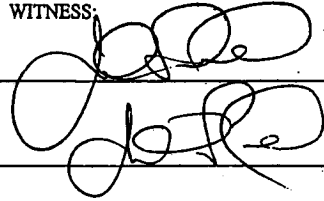
**BB&T**  
**LOAN AGREEMENT**

**SIGNATURE PAGE**

IN WITNESS WHEREOF, the Bank, Borrower and Guarantor(s) have caused this Agreement to be duly executed under seal all as of the date first above written.

**Borrower is a Corporation:**

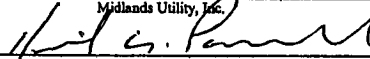
WITNESS:



Borrower's Name

Midlands Utility, Inc.

By:

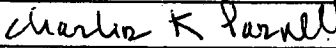


Keith Parnell

Title:

President

By:

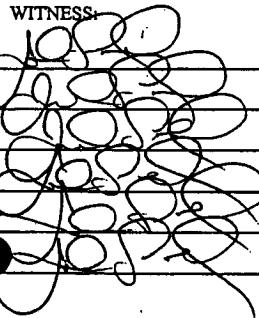


Charles K. Parnell

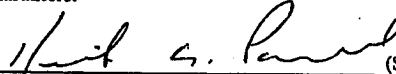
Title:

Vice-President

WITNESS:



**Additional Co-Borrowers or Guarantors:**



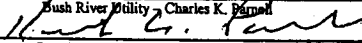
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Bush River Utility - Keith Parnell



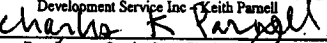
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Bush River Utility - Charles K. Parnell



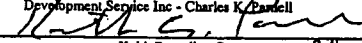
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Development Service Inc - Keith Parnell



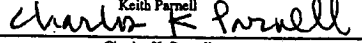
(SEAL)

Development Service Inc - Charles K. Parnell



(SEAL)

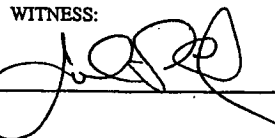
Keith Parnell



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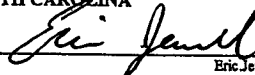
Charles K. Parnell

WITNESS:



**BRANCH BANKING AND TRUST COMPANY  
OF SOUTH CAROLINA**

By:



Eric Jewell

Title:

Banking Officer

Account Number: 9521421107

Address: 816 EAST MAIN STREET  
LEXINGTON, SC 29072-0000

BB&T

of South Carolina

LEXINGTON

Date: April 8, 2004

EXHIBIT DMH-9  
PAGE 14 OF 19

PROMISSORY NOTE

BORROWER(S) REPRESENTS HERewith THAT THE LOAN EVIDENCED HEREBY IS BEING OBTAINED FOR BUSINESS/COMMERCIAL PURPOSES. For value received, the undersigned, jointly and severally, if more than one, promises to pay to BRANCH BANKING AND TRUST COMPANY OF SOUTH CAROLINA, a South Carolina banking corporation (the "Bank"), or order, at said bank at any of its offices in the above referenced city (or such other place or places that may be hereafter designated by Bank), the sum of

TWO MILLION TWENTY-ONE THOUSAND FOUR HUNDRED DOLLARS & 00/100

Dollars (\$ 2,021,400.00 ), in immediately available coin or currency of the United States of America. ☒ Borrower shall pay a prepayment penalty as set forth in the Prepayment Penalty Addendum attached hereto.

Interest shall accrue from the date hereof on the unpaid balance outstanding from time to time at the:

☐ Fixed rate of \_\_\_\_\_ % per annum.  
☒ Variable rate of the Bank's Prime Rate plus 0.400 % per annum to be adjusted \_\_\_\_\_ Daily as the Bank's Prime Rate changes. If checked here ☒ , the interest rate will not exceed a(n) ☒ fixed ☐ average maximum rate of 7.700 % or a ☐ floating maximum rate of the greater of \_\_\_\_\_ % or the Bank's Prime Rate; and the interest rate will not decrease below a fixed minimum rate of 4.650 %. If an average maximum rate is specified, a determination of any required reimbursement of interest by Bank will be made: ☐ when Note is repaid in full by Borrower ☐ annually beginning on \_\_\_\_\_

☐ Fixed rate of \_\_\_\_\_ % per annum through \_\_\_\_\_ which automatically converts on \_\_\_\_\_ to a variable rate equal to the Bank's Prime Rate plus \_\_\_\_\_ % per annum which shall be adjusted as such Prime Rate changes.

Principal and interest is payable as follows

☐ Principal (plus any accrued interest not otherwise scheduled herein) } is due in full at maturity on \_\_\_\_\_  
☐ Principal plus accrued interest }  
☒ Payable in consecutive \_\_\_\_\_ Monthly installments of ☐ Principal ☒ Principal and interest } commencing on 11/15/2005

and continued on the same day of each calendar period thereafter, in 41 equal payments of \$ 16,335.00 , with one final payment of all remaining principal and accrued interest due on 04/08/2009

☐ ChoiceLine Payment Option: 2% of outstanding balance is payable monthly commencing on \_\_\_\_\_ and continuing on the same day of each calendar period thereafter, with one final payment of all remaining principal and accrued interest due on \_\_\_\_\_

☒ Accrued interest is payable \_\_\_\_\_ Monthly commencing on May 15, 2004 and continuing on the same day of each calendar period thereafter, with one final payment of all remaining interest due on October 15, 2005

☐ Bank reserves the right in its sole discretion to adjust the fixed payment due hereunder \_\_\_\_\_ on \_\_\_\_\_ and continuing on the same day of each calendar period thereafter, in order to maintain an amortization period of no more than \_\_\_\_\_ months from the date of this Note. Borrower understands the payment may increase if interest rates increase.

☐ Prior to an event of default, Borrower may borrow, repay, and reborrow hereunder pursuant to the terms of the Loan Agreement, hereinafter defined.

☐ Borrower hereby authorizes Bank to automatically debit from its demand, deposit, or savings account(s) with Bank, any payment(s) due under this Note on the date(s) due.

The undersigned shall pay to Bank a late fee in the amount of five percent (5%) of any installment past due for fifteen (15) or more days. When any installment payment is past due for fifteen (15) or more days, subsequent payments shall first be applied to the past due balance. In addition, the undersigned shall pay to Bank a returned payment fee if the undersigned or any other obligor hereon makes any payment at any time by check or other instrument, or by any electronic means, which is returned to Bank because of nonpayment due to nonsufficient funds.

All interest shall be computed and charged for the actual number of days elapsed on the basis of a year consisting of three hundred sixty (360) days. In the event periodic accruals of interest shall exceed any periodic fixed payment amount described above, the fixed payment amount shall be immediately increased, or additional supplemental interest payments required on the same periodic basis as specified above (increased fixed payments or supplemental payments to be determined in the Bank's sole discretion), in such amounts and such times as shall be necessary to pay all accruals of interest for the period and all accruals of unpaid interest from previous periods. Such adjustments to the fixed payment amount or supplemental payments shall remain in effect for so long as the interest accruals shall exceed the original fixed payment amount and shall be further adjusted upward or downward to reflect changes in the variable interest rate; provided that unless elected otherwise above, the fixed payment amount shall not be reduced below the original fixed payment amount. However, Bank shall have the right, in its sole discretion, to lower the fixed payment amount below the original payment amount.

This Note is given by the undersigned in connection with the following agreements (if any) between the undersigned and the Bank:

Mortgage(s) / Deed of Trust(s) granted in favor of Bank as mortgagee / beneficiary:

☒ dated 04/08/2004 in the maximum principal amount of \$ 2,021,400.00  
granted by BUSH RIVER UTILITIES, INC

☒ dated 04/08/2004 in the maximum principal amount of \$ 2,021,400.00  
granted by MIDLANDS UTILITY, INC

ACCOUNT# / NOTE#  
9521421107 00001



Exhibit 6

Security Agreement(s) granting a security interest to Bank:

☒ dated 04/08/2004 given by DEVELOPMENT SERVICE, INC.

☒ dated 04/08/2004 given by KEITH G. PARNELL

☐ Securities Account Pledge and Security Agreement dated \_\_\_\_\_, executed by \_\_\_\_\_

☐ Control Agreement(s) dated \_\_\_\_\_, covering ☐ Deposit Account(s) ☐ Investment Property  
☐ Letter of Credit Rights ☐ Electronic Chattel Paper

☐ Assignment of Certificate of Deposit, Security Agreement, and Power of Attorney (for Certificated Certificates of Deposit) dated \_\_\_\_\_, executed by \_\_\_\_\_

☐ Pledge and Security Agreement for Publicly Traded Certificated Securities dated \_\_\_\_\_, executed by \_\_\_\_\_

☒ Assignment of Life Insurance Policy as Collateral dated 04/08/2004, executed by KEITH G. PARNELL

☒ Loan Agreement dated 04/08/2004, executed by Borrower and ☒ Guarantor(s).

☒ See Attachment to BB&T Note dated 04/08/2004 in the amount of \$2,021,400.00.

All of the terms, conditions and covenants of the above described agreements (the "Agreements") are expressly made a part of this promissory note (the "Note") by reference in the same manner and with the same effect as if set forth herein at length and any holder of this Note is entitled to the benefits of and remedies provided in the Agreements and any other agreements by and between the undersigned and the Bank.

No delay or omission on the part of the holder in exercising any right hereunder shall operate as a waiver of such right or of any other right of such holder, nor shall any delay, omission or waiver on any one occasion be deemed a bar to or waiver of the same or of any other right on any future occasion. Every one of the undersigned and every endorser or guarantor of this Note regardless of the time, order or place of signing waives presentment, demand, protest and notices of every kind and assents to any one or more extensions or postponements of the time of payment or any other indulgences, to any substitutions, exchanges or releases of collateral if at any time there be available to the holder collateral for this Note, and to the additions or releases of any other parties or persons primarily or secondarily liable.

The failure to pay any part of the principal or interest when due on this Note or to fully perform any covenant, obligation or warranty on this or on any other liability to the Bank by any affiliate (as defined in 11 USC Section (101) (2)), or by any guarantor or surety of this Note (said affiliate, guarantor, and surety are herein called "Obligor"); or if any financial statement or other representation made to the Bank by any of the undersigned or any Obligor shall be found to be materially incorrect or incomplete; or in the event the default pursuant to any of the Agreements or any other obligation of any of the undersigned or any Obligor in favor of the Bank; or in the event the Bank demands that the undersigned secure or provide additional security for its obligations under this Note and security deemed adequate and sufficient by the Bank is not given when demanded; or in the event one or more of the undersigned or any Obligor shall die, terminate its existence, allow the appointment of a receiver for any part of its property, make an assignment for the benefit of creditors, or where a proceeding under bankruptcy or insolvency laws is initiated by or against any of the undersigned or any Obligor; or in the event the Bank should otherwise deem itself, its security interest, or any collateral unsafe or insecure; or should the Bank in good faith believe that the prospect of payment or other performance is impaired; or if there is an attachment, execution, or other judicial seizure of all or any portion of the Borrower's or any Obligor's assets, including an action or proceeding to seize any funds on deposit with the Bank, and such seizure is not discharged within 20 days; or if final judgment for the payment of money shall be rendered against the Borrower or any Obligor which is not covered by insurance and shall remain undischarged for a period of 30 days unless such judgment or execution thereon is effectively stayed; or the termination of any guaranty agreement given in connection with this Note, then any one of the same shall be a material default hereunder and this Note and other debts due the Bank by any one or more of undersigned shall immediately become due and payable without notice, at the option of the Bank. From and after any event of default hereunder, interest shall accrue on the sum of the principal balance and accrued interest then outstanding at the variable rate equal to the Bank's Prime Rate plus 5% per annum ("Default Rate"), provided that such rate shall not exceed at any time the highest rate of interest permitted by the laws of the State of South Carolina; and further provided that such rate shall apply after judgement. In the event of any default, the then remaining unpaid principal amount and accrued but unpaid interest then outstanding shall bear interest at the Default Rate called for hereunder until such principal and interest have been paid in full. In addition, upon default, the Bank may pursue its full legal remedies at law or equity, and the balance due hereunder may be charged against any obligation of the Bank to any party, including any Obligor. Bank shall not be obligated to accept any check, money order, or other payment instrument marked "payment in full" on any disputed amount due hereunder, and Bank expressly reserves the right to reject all such payment instruments. Borrower agrees that tender of its check or other payment instrument so marked will not satisfy or discharge its obligation under this Note, disputed or otherwise, even if such check or payment instrument is inadvertently processed by Bank unless in fact such payment is in fact sufficient to pay the amount due hereunder.

PROMISSORY NOTE SIGNATURE PAGE

Borrower: MIDLANDS UTILITY, INC

Account Number: 9521421107

Note Amount: \$ 2,021,400.00

Note Number: 00001

Date: 04/08/2004

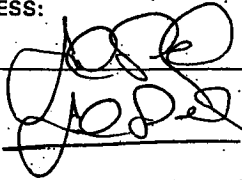
**Notice of Right to Copy of Appraisal:** If a 1-4 family residential dwelling is pledged as collateral for this Note, you, the undersigned, have a right to a copy of the real estate appraisal report used in connection with your application for credit. If you wish to receive a copy, please notify in writing the branch office where you applied for credit. You must forward your request to the Bank no later than 90 days after the date of this Note. In your request letter, please provide your name, mailing address, appraised property address, the date of this Note, and the Account and Note Numbers shown on the front of this Note.

**Waiver of Appraisal Rights.** The laws of South Carolina provide that in any real estate foreclosure proceeding a defendant against whom a personal judgment is taken or asked may within thirty days after the sale of the mortgaged property apply to the court for an order of appraisal. The statutory appraisal value as approved by the court would be substituted for the high bid and may decrease the amount of any deficiency owing in connection with the transaction. TO THE FULLEST EXTENT PERMITTED BY LAW AND AS A MATERIAL INDUCEMENT FOR LENDER TO MAKE THE LOAN, MORTGAGOR HEREBY WAIVES AND RELINQUISHES THE STATUTORY APPRAISAL RIGHTS WHICH MEANS THE HIGH BID AT THE JUDICIAL FORECLOSURE SALE WILL BE APPLIED TO THE DEBT REGARDLESS OF ANY APPRAISED VALUE OF THE MORTGAGED PROPERTY.

IN WITNESS WHEREOF, the undersigned, on the day and year first written above, has caused this note to be executed under seal.

**If Borrower is a Corporation:**

WITNESS:



MIDLANDS UTILITY, INC

NAME OF CORPORATION

By: Richard G. Parrell President

By: Charles K. Parrell Vice President

BUSH RIVER UTILITIES, INC.

NAME OF CORPORATION

By: Richard G. Parrell President

By: Charles K. Parrell Vice President

DEVELOPMENT SERVICE, INC.

NAME OF CORPORATION

By: Richard G. Parrell President

By: Charles K. Parrell Vice President

**If Borrower is a Partnership, Limited Liability Company, or Limited Liability Partnership:**

WITNESS:

NAME OF PARTNERSHIP, LLC, OR LLP

By: \_\_\_\_\_ (SEAL)  
GENERAL PARTNER OR MANAGER

By: \_\_\_\_\_ (SEAL)  
GENERAL PARTNER OR MANAGER

By: \_\_\_\_\_ (SEAL)  
GENERAL PARTNER OR MANAGER

WITNESS:

**If Borrower is an Individual:**

(SEAL)

WITNESS:

**Additional Co-makers:**

(SEAL)

(SEAL)

(SEAL)

(SEAL)



The term "Prime Rate," if used herein, means the rate of interest per annum announced by the Bank from time to time and adopted as its Prime Rate. The Prime Rate is one of several rate indexes employed by the Bank when extending credit. Any change in the interest rate resulting from a change in the Bank's Prime Rate shall become effective as of the opening of business on the effective date of the change. If this Note is placed with an attorney for collection, the undersigned agrees to pay, in addition to principal and interest, all costs of collection, including reasonable attorneys' fees which the undersigned agrees shall be equal to 15% of the principal and interest outstanding at the time of acceleration or other action by Lender to collect the sums due hereunder, unless the actual attorneys' fees incurred, based upon Bank's counsel's normal hourly fees chargeable to Bank, shall be greater than 15% of principal and interest, in which case such billed amount based on such hourly rate shall be the attorneys' fee payable hereunder. All obligations of the undersigned and of any Obligor shall bind his heirs, executors, administrators, successors, and/or assigns. Use of the masculine pronoun herein shall include the feminine and the neuter, and also the plural. If more than one party shall execute this Note, the term "undersigned" as used herein shall mean all the parties signing this Note and each of them, and all such parties shall be jointly and severally obligated hereunder. Whenever possible, each provision of this Note shall be interpreted in such a manner to be effective and valid under applicable law, but if any provision of this Note shall be prohibited by or invalid under such law, such provision shall be ineffective but only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note. All of the undersigned hereby waive all exemptions and homestead laws. The proceeds of the loan evidenced by this Note may be paid to any one or more of the undersigned. No waivers and modifications shall be valid unless in writing and signed by the Bank. In case of conflict between the terms of this Note and the Loan Agreement or Commitment Letter issued in connection herewith, the priority of controlling terms shall be first this Note, then the Loan Agreement, and then the Commitment Letter. This Note shall be governed by and construed in accordance with the laws of South Carolina.

#### CREDIT LIFE AND DISABILITY INSURANCE

Subject to certain underwriting criteria and limitations, INDIVIDUAL BORROWERS AND ADDITIONAL CO-MAKERS HAVE THE RIGHT TO REQUEST CREDIT LIFE AND DISABILITY INSURANCE PROTECTION FOR THIS LOAN. One or two Borrowers/Co-makers may be covered by BB&T Credit Life Insurance and one Borrower/Co-maker may be covered by BB&T Credit Disability Insurance. However, the purchase of credit life and credit disability insurance from the Bank is not a condition of obtaining this loan.

I, the undersigned, desire the credit insurance with the cost and terms described below and promise to pay the premium of such insurance coverage. I understand that I may cancel this credit insurance at any time. I represent that, to the best of my knowledge, I am in good health and am insurable.

☐ Product I : Complete the following: ☐ Fidelity Security Insurance Company Flex Plan (Complete separate application)

CREDIT LIFE INSURANCE		Effective Date	Term in Mos.	Amount Financed	Interest Rate	Credit Life Premium
<input type="checkbox"/> Single	<input type="checkbox"/> Level			\$		\$
<input type="checkbox"/> Joint	<input type="checkbox"/> Decreasing			\$		\$

CREDIT DISABILITY INSURANCE	Monthly Benefit Amount	Credit Disability Premium
Effective Date and Terms in Mos. Same as Credit Life Insurance Above	\$	\$

Credit Disability Insurance is subject to a 14-day elimination period and a 60-month maximum benefit period. Only the Borrower or Co-Maker who signs the first line under "Signature(s) of Insured" is covered by Credit Disability Insurance.

Date of Birth	Signature(s) of Insured	Total Credit Life and Disability Insurance Premium
	Signature of Primary Insured	
	Signature of Secondary Insured	\$

(SIGNATURES ON FOLLOWING PAGE)

Nc

Attachment of BB&T Promissory Note dated 04/08/2004 in the amount of \$2,021,400.00 between Branch Banking & Trust Company of South Carolina as Bank, and MIDLANDS UTILITY, INC, BUSH RIVER UTILITIES, INC and DEVELOPMENT SERVICE, INC, as Borrower.

## I. Repayment terms of this note are as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## II. Mortgage granted in favor of Bank as beneficiary:

☒ dated 04/08/2004 in the maximum principal amount of \$ 2,021,400.00  
granted by MIDLANDS UTILITY, INC  
☒ dated 04/08/2004 in the maximum principal amount of \$ 2,021,400.00  
granted by MIDLANDS UTILITY, INC  
☒ dated 04/08/2004 in the maximum principal amount of \$ 2,021,400.00  
granted by BUSH RIVER UTILITIES INC  
☒ dated 04/08/2004 in the maximum principal amount of \$ 2,021,400.00  
granted by MIDLANDS UTILITY, INC  
☐ dated \_\_\_\_\_ in the maximum principal amount of \$ \_\_\_\_\_  
granted by \_\_\_\_\_

## III. Security Agreement(s) conveying a security interest in favor of Bank:

☒ dated 04/08/2004 given by CHARLES K PARNELL  
☒ dated 04/08/2004 given by BUSH RIVER UTILITIES, INC  
☒ dated 04/08/2004 given by MIDLANDS UTILITY, INC  
☒ dated 04/08/2004 given by CHARLES K PARNELL  
☒ dated 04/08/2004 given by KEITH G PARNELL

## IV. Additional Agreements, Assignments, Pledges or other security instruments:

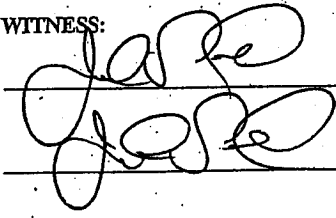
☒ Assignment of Life Insurance Policy dated 04/08/2004 for policy #3423867 executed by  
CHARLES K PARNELL  
☐ \_\_\_\_\_  
☐ \_\_\_\_\_  
☐ \_\_\_\_\_  
☐ \_\_\_\_\_  
☐ \_\_\_\_\_  
☐ \_\_\_\_\_  
☐ \_\_\_\_\_  
☐ \_\_\_\_\_  
☐ \_\_\_\_\_



IN WITNESS WHEREOF, the undersigned, on the day and year first writ

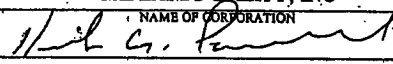
If Borrower is a Corporation:

WITNESS:



MIDLANDS UTILITY, INC.

NAME OF CORPORATION

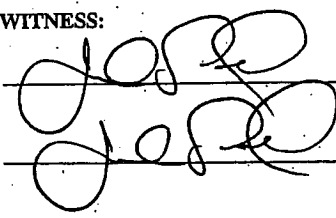
By:  (SEAL)

Title: President

By:  (SEAL)

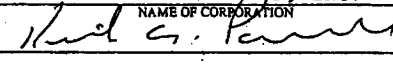
Title: Vice President

WITNESS:



BUSH RIVER UTILITIES, INC.

NAME OF CORPORATION

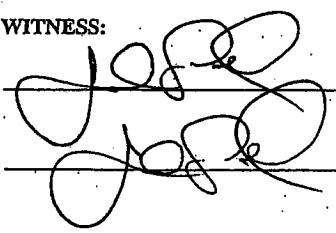
By:  (SEAL)

Title: President

By:  (SEAL)

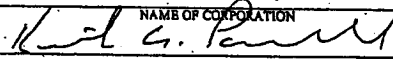
Title: Vice President

WITNESS:

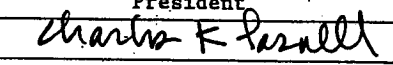


DEVELOPMENT SERVICE, INC.

NAME OF CORPORATION

By:  (SEAL)

Title: President

By:  (SEAL)

Title: Vice President

If Borrower is a Partnership, Limited Liability Company, or Limited Liability Partnership:

WITNESS:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

NAME OF PARTNERSHIP, LLC, or LLP

By: \_\_\_\_\_ (SEAL)  
GENERAL PARTNER OR MANAGER

By: \_\_\_\_\_ (SEAL)  
GENERAL PARTNER OR MANAGER

By: \_\_\_\_\_ (SEAL)  
GENERAL PARTNER OR MANAGER

If Borrower is an Individual

WITNESS:

\_\_\_\_\_ (SEAL)

Additional Co-makers

WITNESS:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_ (SEAL)

\_\_\_\_\_ (SEAL)

\_\_\_\_\_ (SEAL)

\_\_\_\_\_ (SEAL)

**Schedule of Existing and Proposed  
Rates and Charges for  
Bush River Utilities, Inc.**

	I	II	III
	Existing Rate \$	Rate During Construction \$	Rate After Construction \$
<b><u>Schedule of Residential Rates</u></b>			
<b>Type of Residence</b>			
Single Family	18.00	23.06	26.48
Apartments (Per Unit)	17.10	21.91	25.15
<b><u>Schedule of Commercial Rates</u></b>			
<b>Type of Establishment</b>			
Monthly Minimum Charge	18.00	23.06	26.48
<b>Car Washes</b>			
Per Car	2.84	3.64	4.18
<b>Churches</b>	18.00	23.06	26.48
<b>Factories</b>			
Each Employee (no showers)	.84	1.08	1.24
Each Employee (with showers)	1.11	1.42	1.63
Each Employee (with kitchen facilities)	1.39	1.78	2.04
<b>Food Services Operations</b>			
Ordinary Restaurant (not 24 hrs.) (per seat)	2.80	3.59	4.12
24 Hour Restaurant (per seat)	4.19	5.37	6.16
Curb Service (drive-in) (per car space)	2.80	3.59	4.12
Fast-Food Restaurant (per car space)	2.80	3.59	4.12
Vending Machine Restaurant	1.67	2.14	2.46
<b>Institutions</b>			
Per Resident	2.38	3.05	3.50

**Bush River Utilities, Inc.**  
**Rate Schedule**

	<b>I</b>	<b>II</b>	<b>III</b>
	<b>Existing Rate</b>	<b>Rate During</b>	<b>Rate After</b>
	<b>\$</b>	<b><u>Construction</u></b>	<b><u>Construction</u></b>
		<b>\$</b>	<b>\$</b>
<b>Laundries</b>			
Self Service (per machine)	9.52	12.20	14.00
<b>Mobile Homes</b>			
Per Person	2.38	3.05	3.50
<b>Motels</b>			
Per Unit (no restaurant)	2.38	3.05	3.50
<b>Nursing Homes</b>			
Per Bed (no laundry)	2.38	3.05	3.50
Per Bed (with laundry)	2.80	3.59	4.12
<b>Offices</b>			
Per Person (no restaurant)	.70	.90	1.03
<b>Picnic Parks</b>			
Average Attendance	.84	1.08	1.24
<b>Rest Homes</b>			
Per Bed (no laundry)	2.38	3.05	3.50
Per Bed (with laundry)	2.80	3.59	4.12
<b>Schools</b>			
Per Person (no showers, gym, cafeteria)	.56	.72	.82
Per Person (with cafeteria, no gym, showers)	.70	.90	1.03
Per Person (with cafeteria, gym, showers)	.84	1.08	1.24
<b>Service Stations</b>			
Without Bay	19.66	25.19	28.92
First Bay (per bay)	27.98	35.85	41.16
Each Additional Bay (per bay)	13.99	17.92	20.58

**Bush River Utilities, Inc.**  
**Rate Schedule**

	I	II	III
	Existing Rate \$	Rate During Construction \$	Rate After Construction \$
<b>Shopping Centers</b>			
Per 1,000 Square Ft. Space	5.60	7.17	8.24
<b>Swimming Pools</b>			
Per Person (with sanitary facilities & showers)	.56	.72	.82
<b>Theaters</b>			
Drive-in – Stall	.30	.38	.44
Indoor – Seat	.30	.38	.44

**Schedule of Tap Fees**

The “Water Pollution Control Division Guidelines for Unit Contributory Loadings of Wastewater Treatment Facilities (1990)” are incorporated herein by reference. To determine tap fees the following formula is used if the customers’ Bio-Chemical Oxygen Demand (BOD) factor is greater than the BOD factor for a resident:

$$\frac{\text{Total Volume (gpd)}}{400 \text{ (gpd)}} \times \frac{\text{Unit BOD of Customer/100gal.}}{0.17 \text{ lbs.}} \times \$1,166$$

If the customer’s BOD factor is less than the BOD factor of an equal volume of residential waste, the following formula should be used:

$$\frac{\text{Total Volume (gpd)}}{400 \text{ (gpd)}} \times \$1,166$$

**BUSH RIVER UTILITIES, INC.**  
**EFFECT OF PROPOSED RATES ON MONTHLY CUSTOMER BILL**  
**FOR THE TEST YEAR ENDED DECEMBER 31, 2003**

**EXHIBIT DMH-11**

Establishment Type	Measurement Unit	Present Bill	Proposed Bill (Phase I)	Amount of Increase	Percent Increase
Single Family		\$18.00	\$23.06	\$5.06	28.11%
Apartments	Per Unit	\$17.10	\$21.91	\$4.81	28.13%
Monthly Minimum Charge		\$18.00	\$23.06	\$5.06	28.11%
Car Washes	Per Car	\$2.84	\$3.64	\$0.80	28.17%
Churches		\$18.00	\$23.06	\$5.06	28.11%
Factories	Each Employee (no showers)	\$0.84	\$1.08	\$0.24	28.57%
Factories	Each Employee (with showers)	\$1.11	\$1.42	\$0.31	27.93%
Factories	Each Employee (with kitchen)	\$1.39	\$1.78	\$0.39	28.06%
Food Services Operations	Ordinary Restaurant (not 24 hrs.) Per Seat	\$2.80	\$3.59	\$0.79	28.21%
Food Services Operations	24 Hour Restaurant (per seat)	\$4.19	\$5.37	\$1.18	28.16%
Food Services Operations	Curb Service (drive-in) Per car space	\$2.80	\$3.59	\$0.79	28.21%
Food Services Operations	Fast-Food Restaurant (per car space)	\$2.80	\$3.59	\$0.79	28.21%
Food Services Operations	Vending Machine Restaurant	\$1.67	\$2.14	\$0.47	28.14%
Institutions	Per Resident	\$2.38	\$3.05	\$0.67	28.15%
Laundries	Self Service (per machine)	\$9.52	\$12.20	\$2.68	28.15%
Mobile Homes	Per Person	\$2.38	\$3.05	\$0.67	28.15%
Motels	Per Unit (no restaurant)	\$2.38	\$3.05	\$0.67	28.15%
Nursing Homes	Per Bed (no laundry)	\$2.38	\$3.05	\$0.67	28.15%
Nursing Homes	Per Bed (with laundry)	\$2.80	\$3.59	\$0.79	28.21%
Offices	Per Person (no restaurant)	\$0.70	\$0.90	\$0.20	28.57%
Picnic Parks	Average Attendance	\$0.84	\$1.08	\$0.24	28.57%
Rest Homes	Per Bed (no laundry)	\$2.38	\$3.05	\$0.67	28.15%
Rest Homes	Per Bed (with laundry)	\$2.80	\$3.59	\$0.79	28.21%
Schools	Per Person (no showers, gym, cafeteria)	\$0.56	\$0.72	\$0.16	28.57%
Schools	Per Person (with cafeteria, no gym or showers)	\$0.70	\$0.90	\$0.20	28.57%
Schools	Per Person (with cafeteria, gym, showers)	\$0.84	\$1.08	\$0.24	28.57%
Service Stations	Without Bay	\$19.66	\$25.19	\$5.53	28.13%
Service Stations	First Bay (per bay)	\$27.98	\$35.85	\$7.87	28.13%
Service Stations	Each Additional Bay (per bay)	\$13.99	\$17.92	\$3.93	28.09%

**BUSH RIVER UTILITIES, INC.**  
**EFFECT OF PROPOSED RATES ON MONTHLY CUSTOMER BILL**  
**FOR THE TEST YEAR ENDED DECEMBER 31, 2003**

**EXHIBIT DMH-11**

Establishment Type	Measurement Unit	Present Bill	Proposed Bill (Phase I)	Amount of Increase	Percent Increase
Service Stations	Per 1,000 Square Ft. Space	\$5.60	\$7.17	\$1.57	28.04%
Swimming Pools	Per Person (with sanitary facilities & showers)	\$0.56	\$0.72	\$0.16	28.57%
Theaters	Drive-in – Stall	\$0.30	\$0.38	\$0.08	26.67%
Theaters	Indoor – Seat	\$0.30	\$0.38	\$0.08	26.67%



**BUSH RIVER UTILITIES, INC.  
ALTERNATE REVENUE REQUIREMENTS  
FOR TEST YEAR ENDING DECEMBER 31, 2003**

**EXHIBIT DMH-12  
PAGE 1 OF 1**

<b>Revenue Alternates</b>	<b>System Type</b>	<b>Revenue Required After Increase</b>	<b>System Single Family Units (SFE)</b>	<b>SFE Monthly Charge</b>
Operating Margin @ 11.00%	Sewer	\$284,127.00	1314	\$18.02
Operating Margin @ 15.00%	Sewer	\$302,552.00	1314	\$19.19
Operating Margin @ 20.00%	Sewer	\$334,652.00	1314	\$21.22
Operating Margin @ 22.65%	Sewer	\$358,161.00	1314	\$22.71